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United States Import Restrictions and American Agriculture.

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ABSTRACT

Domestic agricultural policy appears to have been formulated with little regard for the foreign trade objectives advocated by the United States since the passage of the Reciprocal Trade Agreements Acts. This study is an attepmt to analyze the effects that foreign trade and agricultural policy decisions, often at cross purposes, have had on resource utilization by American agriculture.

Authoritative works in the fields of foreign trade policy and agricultural policy were used as the sources for most basic ideas. Congressional hearings, and government publications and statistics were used to supplement the works cited above in showing the effects of past policy decisions on various selected agricultural commodities and their production. A short inquiry was made into the reasons for, and benefits accruing from trade between this nation and others. Import restrictions that tend to lessen movements of goods and services were examined to see what effect they had on the economy and upon the producers of agricultural commodities. The use of resources in the productionof various commodities was examined in order to determine how the efficiency of their use was affected by the contraction or expansion of American imports.

It was determined that agricultural policy should be more closely coordinated with foreign trade objectives to further international relations. In addition, farm policy which is often incompatible with the best interests of international relations in many cases, is also incompatible with the best interests of American agriculture. It was established that the "farm bloc" has often aided in the passage of legislation

which aids very few farmers and which may impose a burden on the entire economy. In addition it was discovered that much of the latest agricultural legislation and policies have not been helpful in solving the real farm problem--excessive numbers of low income farmers. It was established that attempts made to increase the level of farm income with price support programs often gave little if any help to low income farmers. Nevertheless, such programs have restricted normal exports and led to "dumping". In addition these price support programs have increased the need for import restrictions and have tended to slow up the normal pattern of resource shifting.

It is concluded that a re-orientation of agricultural policy should be forthcoming. Resources should be aided in their shift to more efficient and better paying pursuits. Potential importers should be encouraged, not hampered. Agricultural producers unable to cope with imports should be aided in shifting resources to the production of other commodities or other industries. The program should presume that benefits accruing to the economy should not be paid by the producers feeling the brunt of competition from increased imports. For this reason the cost of re-orientation should be borne by society and the time needed to accomplish the shift should be long enough to permit a smooth period of transition. To assist in accomplishing this shift the economy needs to be kept at full or near full employment.

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CHAPTER I

INTRODUCTION

Economic theorists and producers for export markets have generally advocated lessening of restrictions on the trade between nations. On the other hand, many producers confronted with import competition have demanded protection in the form of tariffs and other trade restrictions and these demands have often been intensified during business recessions. Economists have generally discredited the use of most protective restrictions by a nation that has developed to the position of an advanced creditor nation. International trade that does take place is normally assumed to follow along lines which are consistent with a more productive allocation of resources. A persistent confidence in that principle on the part of our policy makers was an important underlying factor in orienting American foreign trade policy, after 1930, toward a lessening of trade barriers and a stimulation of international trade.

By all odds, the most significant modification in either the theory or practice of tariff policy in the United States in the last 100 years was the passage, in 1934, of the Reciprocal Trade Agreement Amendment to the Tariff Act of 1930. Largely as a result of the trade agreements program which that new legislation made possible, the average ad valorem equivalents of the customs rates on imports of dutiable merchandise into the United States has fallen steadily - in round figures, from 53 per cent in 1930 to 12 per cent in 1955. The specific duties that many imports carry force the rates up, as a per cent of import values, when money prices are deflating. In 1932 at the height of the depression import rates reached a high of 59 per cent.

Conversely, today continuation of inflationary pressures is lowering the rates as a per cent of import values.

Agriculture supplies a large, although declining, portion of total American exports and is receiving increasing competition in the world markets, and, where imports are permitted, also within the domestic markets. Relative and absolute losses of exports have caused spokesmen for certain agricultural blocs to advocate export subsidies, while increased import competition has been used as an argument for increased restrictions by other agricultural bloc spokesmen.

The goals of agricultural policy and foreign trade policy seem to be diametrically opposed—one in favor of more restrictions on trade, the other in favor of allowing greater freedom to trade.

Following a review of some pertinent principles in Chapter II, this study will turn from general trade theory and explore the effects that restrictions placed upon international trade by the United States have had upon various segments of agriculture. The present plight of agriculture will be examined to see whether trade restriction concessions made in favor of agriculture, and those asked for by agriculture, are aiding agriculture. The effects of domestic agricultural policies will be examined to see what effect they have upon foreign trade policy. The domestic agriculture and foreign trade policies will be examined to see how effective they are in their attempts at solving the low income farm problem; effects on the general economy will also be noted.

An analytical study of trade and farm policies would seem to be in order at this time because of the political importance attached to

the maintenance of a prosperous agriculture and the need to improve international relations in order to help forestall a decline in American prestige abroad.

Within the last five years Congress has held several hearings to obtain information by which legislation could be formulated to aid in solving these problems. From April 9 to June 15, 1953 the Senate Committee on Agriculture and Forestry held public hearings on the effects of exports and imports, and specifically on the impact of agricultural exports and imports on farm price support programs. From February 25 to June 2, 1955 a subcommittee of the same committee held hearings on the administration of Acts relating to the disposal of surplus agricultural commodities. From September 17 to December 13, 1956 a subcommittee of the House Ways and Means Committee held hearings in the United States, Europe, and Asia on the administration and operation of custom and tariff laws and the trade agreements program.

During this same period of time, 1953-1957 academic interest was exhibited by articles pertaining to various aspects of these problems in such journals as The American Economic Review and The Journal of Farm Economics. A comprehensive work was done on the subject by S. Payson Perry in 1908. C. Addison Hickman did research on the subject and published a book, Our Farm Program and Foreign Trade, in 1949. D. Gale Johnson published his work, Trade and Agriculture, in 1950. While many of the writers in the field have given much thought to the effects of trade upon agriculture and society in general, they have given comparatively little attention to the effects of farm policy and restrictions on trade. Nor have they related these effects to the degrees of efficiency in the production of the various agricultural

commodities. Neither have the effects of trade restriction programs been closely correlated with the attempts to solve the farm income problem among the different sized farmsteads.

Practically all proposals to solve the "farm problem" have been aimed at one and the same objective, that of maintaining satisfactory price levels in order to solve the low income problem. Our attempts along this line have, of course, not yielded a satisfactory solution. Instead, it has been accused by many of actually intensifying the problem. The use of price support measures in an attempt to solve the farmers' income problem is untenable unless imports are restricted and exports are subsidized. Primarily for this reason a consideration of the effects of trade restrictions and domestic policy upon different segments of agriculture, the consumer, and the taxpayer will be followed by an examination of various alternative policies. The possible results of the programs based upon such policies will be contrasted and compared with the results of present policy. Throughout this exploratory effort, due attention will be given to the matter of differentiating policy recommendations along lines that are indicated by the varying needs of the several segments of our agricultural production.

CHAPTER II

BASES FOR TRADE AND FACTOR RETURNS

Trade, when un-encumbered with state trading or dumping, may be expected to take place when the proper combination of circumstances is in evidence. Items will normally be imported if they can be bought cheaper by the importer than similar items at home. Production of export items may be expected when profits are greater than they would be if production factors were used to produce items to satisfy local demands alone. The prices, when free to do so, that will determine whether commodities are exported, produced for local use, or are imported depend on the use of certain real productive factors, their location and their abundance. Freedom to exchange goods while in search of profit makes possible the efficient use of the real productive factors, or resources. Demand for factors used in the productive process depends upon the sale of the product at a price which is high enough to give each factor a return which is at least equal to opportunity costs for that factor.

A nation is a logical exporter of a given commodity when its comparative costs are less in terms of total inputs than are the cost ratios of producing the same commodity relative to different commodities in other areas. The reason that a nation may be capable of producing a certain commodity cheaper, relative to other producing nations, depends on its combination of factors of production or its resource endowment.

Among the causes for differing productivity of land are geographic location, the elements contained in the soil, rainfall, temperature,

and transport potential. Differences in labor productivity may be traced to several causes, among which are the quantity of labor, its health, education level, and manual dexterity. Capital productivity may, among other things, depend variously on circumstances associated with capital accumulation, government stability, institutionalized interest patterns, the demand for investments to export production, the national growth pattern, and government monetary and fiscal policies.

A nation, by producing commodities best fitted to its peculiar combination of the factors of production for domestic and export users, and by importing those things not especially adapted to production with its factor combination, is following "the law of comparative advantage." The remainder of this chapter consists of a discussion of the applicability of that law under various sets of circumstances and a review of factor returns as a determinant of the volume, nature, and direction of foreign trade.

Comparative Advantage

Society will be better off if it can increase the number of units of a given quality of output obtained without a corresponding increase in the effort needed to produce this increase. It would normally be imprudent to employ capital and labor in the production at home of the things that could be purchased cheaper from foreign countries. This fact is more likely to be overlooked in the case of a country whose foreign trade makes up only a small percentage of its total trade. The foreign trade of the United States, while admittedly small as compared to its domestic trade, is nevertheless vitally important to those dependent on its continued existence and growth. The importance of foreign trade to the American economy is often not understood.

In fact, many of the laws which have been enacted to restrict and regulate trade appear to be shortsighted.

The answer to the question, "Why do goods move into trade?" is to be found in an understanding of the principle of comparative advantage. It is easy to observe the advantages to be gained where one good that is peculiarly adaptable to one person or region is traded for another good that is the specialty of another place or person. What is difficult to see, however, is what causes trade to exist where one group of people or region appears to be better adapted to satisfy all its own wants than is another group or region.

To repeat, trade takes place because buyers, through trade, find a cheaper way of satisfying their wants. Prices cannot readily be compared between nations, for each nation has its own monetary unit. However, price ratios within a nation can be compared as between a given commodity and other commodities. When the price ratio is more favorable for some specific item in another nation, that item becomes a profitable import. The relative ranking of commodities in each nation's price schedule, assuming free markets, is a manifestation of comparative advantage, and the determinant of which goods will enter foreign trade if left free to do so.

Alfred Marshall states the law of comparative advantage as follows:

> "Countries whose advantages are distributed in unequal proportions among different industries, may generally carry on a trade profitable to both, even though one of them is absolutely the stronger all around."[1]

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[1] Alfred Marshall, Industry and Trade (London: MacMillan and Co., 1932), p. 18.

Differences of Endowment and Combinations of "Factors of Production"

The model of comparative advantage does not depend on differences in price as between one nation and another. And at the present time it is particularly difficult to make such price comparisons in the presence of multiple exchange rates, bilateral agreements, exclusions, and areas of preferential treatment. Much of the explanation of trade rests upon the fact that through trade wants are satisfied with less effort. Nations specialize in fields in which their aptitudes are greatest. Products move from areas of specialization to increase the satisfactions of producers in other specialized areas. Thus it is often possible and profitable for an area to forego the production of commodities not readily produced by existing factor combinations, and permit a shifting of resources to areas of high aptitude. Product movement is called international trade whenever goods happen to cross international political boundaries.

The comparative differences of costs of producing various goods within the several nations stem from differences of resource endowments. Broadly speaking, resource endowments are land, labor, and capital, the factors of production. Ordinarily those factors which are abundant are relatively cheap, and the scarce factors are relatively expensive. In illustration, the Borough of Manhattan would have relatively low cost labor in relation to land costs when compared with Nye County, Nevada, although both labor and land may be absolutely higher in Manhattan.

The different commodities that man produces to satisfy his wants are made with varying combinations of the basic factors of production. Indeed, in many instances the same item may be produced in different circumstances with different factor proportions. The comparative costs

of these factors of production under unlike conditions can make a vast difference in the cost of the same finished product. Cotton which sells in a national market is profitably produced in California where labor and adequate farm land are scarce, yet in areas of the South where both labor and land are relatively abundant, cotton farming is unable to support a decent scale of living. The large size of the many California farms makes them more conducive to capital displacement of labor, whereas small size farm units common to certain areas in the South are dependent on man and mule, and are located on very poor soil.

Some commodities are preponderantly labor-using in their production. Examples are tobacco, sugar beets, and berries. Other crops are often largely land-using. These include timber, cattle, wheat, and similar agricultural crops. Capital-using products, on the other hand, include such items as corn, sugar cane (in Hawaii and Louisiana), and so on.

The determining factor of comparative advantage for the different type goods an area produces is found in comparative costs. Were labor and capital completely mobile, costs might be much closer, and the deciding factor would then be land. Labor and capital, however, tend to be immobile for various reasons.[2] The comparative costs of certain goods within an area will be determined by the relative scarcity of the factors of production, and a least-cost combination of these factors. Only those goods which are able to command high returns to the factors

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[2]Lawrence W. Towle, International Trade and Commercial Policy (New York: Harper and Brothers Publishers, 1948), pp. 5-9.

of production should normally be found in a nation's exports. Goods unable to command high returns to the productive factors are incapable of being produced efficiently with the factors available.[3] Thus it is the item which does not command high returns to the productive factors that we normally expect to be imported. In some instances inadequate demand may preclude optimum factor usage and certain economies of size.

Advantages of Large Scale Production and Better Resource Utilization

The optimum output-input ratio is obtainable when the efficient use of the factors of production has been maximized. The larger the area from which to obtain the least-cost combination, the more likely it is that factor combination usage can be maximized. The larger the market, the greater will be the possibility of increasing output enough to take advantage of certain economies which are often associated with large size. The United States as an economic unit with a minimum of internal restrictions on trade is an example of such conditions. With mass production, capital-using production methods realize their fullest advantage. With a chronic manpower shortage relative to land and capital, the developing United States economy has been confronted with high labor costs, and has needed labor-saving production methods to reduce costs. Effi-

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[3]Efficiency in production will be defined as having been obtained when the total costs of the factors of production used in producing a given commodity cannot be decreased by use of a different factor combination.

See Lorie Tarshis, International Trade and Finance (New York: John Wiley and Sons, Inc., 1955), pp. 115-122.

Whenever location is considered, transport costs must be included in the productive factor combination. Climate, soil difference, rainfall, and ethnic differences effect efficiency and must also be considered. Returns to the factors to be considered adequate, or high enough, should be as high as they would be from any other use.

cient use of capital to supplement labor was assisted by the relative freedom of goods and raw materials to move within the United States.[4]

Europe is today emulating this advantage by attempting to form an economically integrated community in order to obtain a freedom of specialization similar to that which our several states have enjoyed since this country's birth.[5] However, the traditionally restrictive trade policies in Europe are such that only the broad outlines of European free trade are now visible. Hard negotiations will be necessary before concrete results can be expected. It is believed that the benefits of a wider market in manufactured goods may prove to be the force that will remove many of the obstacles to this development. It should be further noted that Europe has not been confronted with labor shortages often associated with the history of America's industrial growth.

The need for labor saving devices in many American industries may be traced in some instances to the relative scarcity of manpower. A major justification for capital investments in agriculture is found in the fact that with wide expanses of land, relatively expensive labor cannot be profitably utilized without capital. Capital, on the other hand, cannot be efficiently used unless it is cheaper than labor. By

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[4]Paul T. Ellsworth, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Second Session, Washington, D.C., (1956) p. 125. See also Bertil Ohlin Interregional and International Trade, (Cambridge: Harvard University Press, 1935), pp. 170-182. Economies of large-scale production is discussed on p. 172.

[5]The New York Times, May 26, 1957, "Europeans Unite in Customs Union:" Treaties signed in Italy bring six European nations together in a single market and customs union for the free circulation of goods. A common tariff is to be adopted and import quotas to be eliminated in a period of twelve years. Signatory nations, with a total of 160 million people, are Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany.

the process of substitution when labor costs more than capital, the machine or technology is used. Capital use has varying degrees of effectiveness in different industries, and in different countries because of differing combinations of the factors of production. Because of different factor endowment, and therefore different cost ratios, nations with a high degree of capital development have as much need for trade among themselves as non-developed areas have for trading with developed ones.[6]

A frequent determinant of capital investments in large scale heavy industries is the nature of the industrial process in relation to natural resource location. Examples of the right combination for capital oriented development are the Ruhr area in Germany, and the Pittsburgh-Great Lakes area of the United States. On the other hand, no comparable economic justification is found for attempting large scale heavy industry in a country like Argentina with a lack of economically located raw materials needed in basic heavy industries dependent on iron. Such an industry in Argentina would call for protection behind a tariff wall, and thus would place a burden on the products which the nation's factor combinations are most efficient in producing, such as wheat, wool, cattle, and like commodities.[7]

National Survival and Vested Interests

A nation may wish to maintain domestic production of commodities that could be more cheaply acquired from foreign suppliers. For instance, during a war for survival, certain crucial commodities, if

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[6]Towle, op. cit., pp. 111-116.

[7]Wendell C. Gordon, The Economy of Latin America (New York: Columbia University Press, 1950), pp. 103-107.

imported in entirety, could leave the nation vulnerable. This is the argument used for protection by nearly every industry that asks Congress for protective legislation. Even corsetiers have sought protection as needed for national survival. Spokesmen for wool and sugar have both claimed to represent strategic commodities needed for national survival. According to Lloyd, "The most generally recognized responsibility of a nation is the preparation of an adequate defense against possible foreign aggression."[8] Even Adam Smith makes a case for protection if such is needed to maintain an industry vital for a nation's defense.[9] If protection for national defense is a valid argument, it can be used for almost any item used in today's economy, since total wars might call for complete self-sufficiency. This, however, is an unattainable goal for any nation, even for the USSR or the USA.[10] At the 1956 Tariff Hearings, Mason made a case against protection. He would have peacetime acquisition and stockpiling of raw materials essential for national defense, with a possible exception of oil.

> "For materials capable of stockpiling—and most strategic materials are—stockpiling in peacetime from low-cost sources, either domestic or foreign is much to be preferred to protection of domestic output, which means procurement from high-cost sources both in peace and war. The existence of an adequate stockpile, moreover, can make it unnecessary in war to divert scarce manpower away from military service and into the war-time production of strategic materials. Oil represents a

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[8]L. E. Lloyd, Tariffs (New York: The Devin-Adair Company, 1955), p. 116.

[9]Adam Smith, The Wealth of Nations (Edited by Edwin Cannan; New York: The Modern Library, Random House, Inc., 1937), pp. 429-432.

[10]Paul T. Ellsworth, The International Economy (New York: The MacMillan Company, 1950), pp. 384-385.

> rather special case that I shall return to presently. ... Most of these oil imports come from Venezuela which, in the event of war, must be judged a relatively safe source, ..."[11]

To this it may be added that the stockpiling of petroleum products may now be within the realm of feasibility. By way of illustration, the Esso Standard Oil Company is now using salt dome storage in the Louisiana swamps.

An industry which is vital for the nation's survival may demand the protection that tariff walls afford. Such protection may limit territorial specialization which would cause each nation to attempt to become more nearly self-sufficient. An alternative to protective tariffs is the subsidization of "needed military goods production." The advantage in this procedure is the ability to scrutinize the costs of protection each time a budget is reviewed. The consumers will benefit and the tax will be placed in accordance with ability to pay in so far as such taxes may be progressive.[12]

Regardless of the bases for a nation's protective policy its citizens will not all be affected alike by trade restrictions; usually some will benefit and others will be hurt. If the individual who may be benefited by tariff protection is vocal enough, it is possible that we

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[11]Edward S. Mason, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Second Session, Washington, D. C., (1956), p. 122. The information presented to the subcommittee was a synthesis of Chapters 11 and 12 of Mason's book Economic Concentration and the Monopoly Problem, Harvard Economic Studies, (Cambridge; Mass., Harvard University Press, 1957). See especially pp. 250-252.

[12]Harry G. Brainard, International Economics and Public Policy (New York: Henry Holt and Company, 1954), pp. 345-346.

may have a tariff policy which is detrimental to the majority.

> "In some instances, tariff legislation has actually been the occasion for parliamentary corruption. More frequently, legislators have been willing to sacrifice the general interest in order to placate powerful business interests among the constituencies, and thus ensure their own personal re-election to office."[13]

Certain pressure has been maintained for tariffs by various groups since the earliest beginning of this nation.[14] Most groups will admit that protection often decreases a nation's standard of living, but they usually contend that other factors outweigh this temporary factor. Yet, once protection is given a lease on life, it seems never to die. The temporary need may end but protection itself seems endless. The chief driving force that has caused major trading nations to retain tariff walls is the self-interest of certain groups of producers. Although the general public, which does the consuming, suffers from protection, special interests profit. The individual who benefits by being protected receives concentrated returns which are of more interest to him than the losses of individual consumers who, while hurt, are only hurt a little. The consumer is rarely aware that he is being hurt while the benefactor is extremely cognizant of his benefits.[15]

Factor Returns and Foreign Trade

Acceptance of the goal of expanded trade focuses attention on where

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[13]Towle, op. cit., p. 327.

[14]Howard R. Smith, "The Farmer and the Tariff: A Reappraisal," The Southern Economic Journal, XXI (October 1954), 164.
As early as 1848 the South, a free trade area, had its sugar interests seeking protection.

[15]Towle, op. cit., pp. 327-328.

the benefits which are derived from trade shall accrue. In addition the question is raised who must shoulder the costs of changing existing pattersn of trade.

Mercantilist Thought

The goal of mercantilism was the maintenance of a favorable balance of trade; the "Mercantilists" overlooked the need for eventually balancing a nations balance of payments. Exports should be as valuable and numerous as possible while imports should be limited if competing with domestic production. Invisible items should be supplied by national enterprises whenever possible.[16] Under mercantilism, products are produced from scarce natural resources, and their export is often subsidized. Yet imports in many instances are restricted.

A reason often given to justify protection for domestic producers is the low level of foreign wages. This argument assumes that low wages necessarily mean low cost and therefore we must protect home industry against imports from nations with lower wages than ours. Actually, cost is determined by all of the factors of production, and if the opportunity cost of labor in a given nation is high because of alternative uses in combination with capital, there is little justification for protecting a hand-intensive use of labor. Wages are generally low where productivity is low and productivity depends not on labor alone but on capital and land as well. Land, of course, includes such "qualitative" features as geographical location, productivity of the soil, and climatic conditions. It is a nation's total output and the distri-

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[16]P. C. Newman, The Development of Economic Thought (New York: Prentice-Hall, Inc., 1952), pp. 18-24.

bution of that output that really determines wealth. If today's "Mercantilists" are permitted to thwart the nation's best resource utilization, and are able to influecne an increase of exports with stricter limits on imports, two major damages are bound to result. First, the American standard of living will be lower than it otherwise might be. Secondly, far less could be done to relieve the dollar shortage situation which has become chronic in many of the major trading nations.

Productivity and Factor Returns

Productivity, which is the basis for the high American scale of living, will depend on proper use of resources if the scale of living is to continue its upward climb.

The worker with a machine pacing his work is less affected by decreasing efficiency than a man setting his own pace. Machine using jobs are far less subject to productivity fluctuations than hand-intensive jobs.[17]

The reason for increased productivity, although measured in man-hours of output, is not that man has become twice as capable as he once was, but rather that man has implemented his limited efforts with different combinations of capital and land. Man, using a machine as the standard setter, is often able after a few hours training to make products of acceptable quality. But when the worker relies on skill rather than machines to set the standard of his production, the training period often runs into years, and quantity is definitely limited by the number

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[17]Philip Taft, Economics and Problems of Labor (Second Edition; New York: Stockpole and Heck, Inc., 1949), pp. 303-305.

of trained personnel. It is therefore easier to increase output in a nation with a high propensity to use capital productive methods than in a nation oriented toward manual methods of production. Output in a nation dependent on mass use of manual labor is limited by the number of skilled workers and labor's physical endurance.

Manpower-using industries within a nation that normally uses a production combination heavy with capital investments is likely to cause relatively high prices for hand-intensive crops. When a nation attempts to maintain a labor-using industry, in the face of cheaper imports, protection is required. Competition for workers calls for wages high enough to be competitive with pay in the more productive industries. The following quotation is an illustration of this principle and its operation with refernece to a specific industry.

> ". . .there is a fallacy in saying we are competing with cheap foreign labor. Really, what we are doing is competing with the efficiency of the automotive industry. . ."[18]

More important still in a consideration of agricultural production is the fact that barriers to imports of cheaper hand-intensive commodities cause the price to be higher, and commonly reduces consumption. Effort that is used to produce a labor-intensive crop in a highly industrialized nation is a waste of resources if that commodity can be imported cheaper, as the manpower so used could be used more effectively elsewhere.

The returns to the factors of production tend to be determined by

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[18] C. H. Percy, President, Bell & Howell Company, A Statement in the hearings before the Committee on Ways and Means, WORLD-WIDE COMPETITION SPURS TRADE, Reprinted by Committee for National Trade Policy; House of Representatives, Washington, D. C., (1955), p. 13.

the scarcity of each factor and the productivity of the combined factors in relation to the demand for the different commodities. The amount of capital available from professional investors for investment in any industry depends on profit expectations. The cheapest goods are those which can be efficiently produced, that is, goods using a country's factor combination that makes use of large amounts of the cheapest factor. The net result will then be the largest return possible to those utilized factors.[19] The bargaining power of the various factors of production, as well as their scarcity and productivity, helps to determine the returns to each individual factor.

The return for one factor can temporarily become out of balance, such as when labor demands pay increases that are not in line with increases in productivity. As soon, however, as management is able to readjust the factors to a new least-cost combination, balance will again be obtained. Lack of import restrictions would no doubt speed up such a readjustment, or prevent in the first place any one factor from obtaining a temporary share much greater than its proportional contribution to productivity. As soon as domestic price is raised to cover increases above productivity to one factor, imports may be expected to increase competition.

Trade, Prices and Factors of Production

Both in a domestic market and in the world market, prices tend to reflect the cost of production. The greater the amount of competition and the longer the time period considered, the nearer will prices approach cost. If the factors of production were mobile, costs

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[19]Ellsworth, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, pp. 124-125.

would be the same in all countries. Because the factors are not free to move at will, the costs, reflected in differing ratios of prices among the several commodities within different nations, dictate international movements.

Complete protection for a commodity, the production of which demands a factor of production combination relying heavily upon a scarce, high-cost factor, would result in a high price relative to other commodities within the country. Production of the protected commodity for local consumption will depend upon the willingness of consumers to pay a price high enough to divert that scarce factor away from other pursuits. The "tulip mania" in Holland was to some extent at least a result of a country's willingness to use a scarce factor, land. The price of bulbs was high enough to support the fad. Similarly, if Alaska were to offer complete protection for hot-house bananas and the demand for bananas was intense enough, some one would go into production.

The nation producing a protected commodity which requires large quantities of scarce, high-cost production factors not only cause that commodity to be scarcer and higher priced than it need be, but also causes the prices of all other goods dependent on the same scarce factor to be higher. When one industry uses a share of a given factor, it competes with all other industries using the same factor; the greater the competition for a limited supply, the higher the prices. This not only makes the general price level higher for local consumers, but also, by readjusting the relative price differences within a nation, makes the nation a poorer market in which foreign nations may buy.

Reduction of imports into a nation that imposes restrictions will allow less foreign exchange for would-be purchasers of that nation's

exports. A nation that is discriminated against by trade restrictions might have a great desire for some good high on the efficiency list of the nation that imposes restrictions. However, the nation which is discriminated against, with less chance to obtain needed foreign exchange may be forced to discontinue purchases from the discriminating nation.

The two-fold reduction of natural advantage by protection of an industry which is economically unable to compete can be seen to hurt not only the protecting country but also the excluded trading country. That country must turn to its own facilities to obtain substitutes for the goods that it wished to import. This will probably cause a redirection of factors within its economy, with resulting higher prices. Both nations have suffered by the exclusion, not only the protected nation, but the excluded one as well. Both have higher general price levels; both have less in total products.

Chief Trading Nations and Wage Differences

One reason that factors of production do not have the same cost in all countries is the lack of factor mobility. Land, which includes the soil and climate, is incapable of relocation. Holland in extending dikes, and other nations with drainage and irrigation projects attempt to alter land use, but only by a small amount. The productivity and scarcity, in relation to the other productive factors, determine the distribution to land.

Capital and labor tend to seek greater returns. A movement by one of them affects the productive power of the other. The movements of both factors tend to give them a uniform value producing power. Labor and capital both tend to gravitate to a place where there is a

shortage. This is so because the law of supply and demand dictate higher value to a good which is demanded but is in short supply. The entrepreneur is the adjuster of the factors of labor and capital, and the adjustment is final when the wages and interest are determined by the productivity of labor and capital.[20]

While capital and labor returns may tend to equalize, a cursory glance at contrasting wages in different areas creates doubt as to the equalization. In 1954, a comparison of daily agricultural wages showed the United States at $5.30, while Ceylon had agricultural wages of 2.5 Rupees for male employees. The Rupee was worth less than 30 cents in exchange for dollars; hence, the Ceylonese farm hand was making less than one-seventh as much as his American counterpart.[21] If there is a tendency for wages and interest to equate there must be some explanation for these differences. First, labor is unable to move between nations because of exclusions, quotas, different cultures, and a general inertia which tends to hold one to his native country. This reluctance to move results from such factors as limited finances, family ties, religious ties, cultural background, immigration regulation and a lack of information as to opportunity elsewhere. For the above reasons, labor is not mobile between nations or within nations. And in addition to international and intranational immobility there is inter-industry immobility.

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[20] J. B. Clark, The Distribution of Wealth (New York: The MacMillan Company, 1938), Ch. 19.

[21] ILO, Yearbook of Labour Statistics 1955 (Geneva, Switzerland: International Labor Office, 1955), Table 19, pp. 234-235.

> "... we can divide labor, somewhat arbitrarily, into four major groups: (1) technical and managerial labor, (2) skilled labor, (3) semi-skilled labor, (4) unskilled labor. Members of each group compete directly with one another, but only to a limited extent with those of the next higher or lower group, and scarcely at all with those at a greater distance on the scale. And while there is some movement from one group to another, it is slow and gradual ... ."[22]

It can be seen that labor is not capable of quick adjustment, but what keeps capital from quickly adjusting between countries and industries? Presently, the threat of nationalization, tax differentials, restrictions on removal of profits from a nation, and instability of governments are prominent deterrents to international investments. Furthermore, where such investments are made there is often a demand for exceedingly high returns to offset the risks involved. Another obstacle is found in the fact that, once capital has been invested in a heavy capital-using industry of a specialty nature, such investment is extremely difficult to be reoriented into a pursuit which has come to offer the investor a greater opportunity for profit.

Capital may be accumulated by reallocation of resources by an authoritarian government, by credit expansion, and by savings within an economy.[23] If these methods fail to produce the needed capital bases for desired productivity, capital must be imported. Interest rates may be used as the drawing motive for imports of capital. If the risks are high, the payment to capital must be high. A nation with a high level of real income is in a far better position to offer the temptingly high interest rate and to increase its capital than one with a low level of

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[22]Ellsworth, The International Economy, p. 173.

[23]Ibid., pp. 182-183.

income. It is to be remembered, moreover, that the need of a nation for capital is frequently rendered all the more urgent by the fact of its dependence on capital for making its labor more efficient.

With greater freedom of trade, capital will be more nearly free to go where it is most needed. Labor, if unable to cross borders, at least will be able to increase efficiency with imports of capital. Comparative advantage, determined by factor resource combinations, depends upon the exchange of goods to increase the welfare of those living in different areas. However, the effects of trade restrictions, or lack of them, on one segment of an economy, such as agriculture, may be quite different from their effects on what is known as the general welfare aspects of a nation's life. Frequent reference to this point will be included in the chapters which follow.

CHAPTER III

EFFECTS OF TRADE REGULATION ON AGRICULTURE IN GENERAL

The United States, an importer of agricultural goods, is also a major exporter of such commodities. A study of the effects of restrictive trade regulations on agriculture introduces two problems: (1) the effects on United States exports of agricultural commodities; and (2) the effects on the output of import-competing crops. An objective of many farmers is less restrictions on imports of all but farm commodities. The reason, of course, is the possibility of lower prices for the things farmers must buy. For example, southern cotton farmers have historically opposed tariff restrictions. In 1908, S. Payson Perry, a Republican farmer who became a Democrat because of the Republican stand on the tariff question, took this position in a book, The Tariff and the Farmer.[1] Yet farmer advocacy of less restraint on imports has by no means been unanimous. Some farm groups have attempted to maintain trade restrictions because, for them it was beneficial to do so. The sugar producers, both beet and cane, have long been advocates of protection.

The tariff is a tax levied by nations on imports or exports for revenue or to restrict trade. In the United States such a tax may be used only on imports. In any country this tax is a powerful means for implementing a commercial policy. While the tariff is by far the

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[1]S. Payson Perry, The Tariff and the Farmer (Worcester, Massachusetts: F. S. Blanchard and Co., 1908), p. 7.

best known tool for restricting trade between nations, it is by no means the only tool. Other tools and devices have been developed and used to help domestic producers who desire protection. Another device for directly restricting trade is the import quota. The import quota, whether operated on a first-come-first-served basis or by negotiation between trading nations, can be even more restrictive than tariffs. An import licensing program may also be effective in eliminating many imports. Once the quota is filled, or no more import licenses are issued, imports are completely excluded. Foreign exchange controls may be operated in such a way as to be highly discriminatory against specific imports. Price controls on imports are still another tool which may have a restrictive effect on imports.[2]

Several forms of indirect trade restrictions sometimes prove to be just as frustrating to international traders as do the more direct forms mentioned above. The most exasperating of such indirect restrictions are found in connection with the administration of the United States tariff laws. The tariff classifications of goods are often very complex. A special source of difficulty and uncertainty is that many goods are comprised of different materials, having different duty rates, and there must be a decision as to which is the component of chief value that will determine the classification. The uncertainty of not knowing sometimes what rate will be applied discourages importation. Valuation is also difficult to determine in many instances, with some items being valued at wholesale in the exporting country,

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[2]For a more elaborate treatment of the various means of restricting imports, see Brainard, op. cit., Ch. 17.

and in other instances the value set is the retail price.

The quarantine and sanitary regulations have been used quite often to bar agricultural imports. The exclusion of all meat and cattle from a nation which has evidence of hoof and mouth disease is a well known example. Provisions covering this situation were included in the 1930 Tariff Act. "Buy at home" slogans and campaigns, when coupled with required marks of origin, can also deter imports. Limitations placed on government purchases from domestic sources, where such purchases are of major significance often have a limiting effect on the quantity of imports.

The fact that some restrictions do not take the form of subsidies to producing groups must not be overlooked. While trade restrictions are generally an attempt to subsidize a favored group, restrictions, such as thos imposed against exports headed for a communist-dominated market, may be purely an international political tool. Use of such a tool may prove economically detrimental to the entire nation's economy and not help any special group.

Varying Effects of Tariff Regulation and Other Restrictions

The various tools that are available to our protectionist-minded legislators are effective in excluding or reducing import competition. The use of these tools, however, has had differing effects upon the separate segments of our economy, and this has led to a continual struggle between groups who are in favor of tariffs and those who are opposed. Farmers, while basically against the principle of protection, Nevertheless in many instances insist upon being protected. Much of

the West has long insisted upon moderate protection although they would receive little benefit from a policy of overall protection. The importance of wool and sugar in the makeup of the West's economy has been a major factor in the moderate protectionism characteristic of the area.[3]

With many American crops dependent on foreign markets for a large portion of their sales we can expect a sentiment on the part of their producers in favor of less trade restrictions. Yet there has been an imbalance of trade in competitive agricultural commodities of nearly half a billion dollars per year in favor of importing nations.[4] The fact that many of our commodities are competing with foreign imports leads us to expect the producers of these products to favor protection. Thus agriculture has certain blocs in favor of, and other blocs opposed to trade restrictions.

Level of Factor Employment in Export and in Import-Competing Commodities

Historically exports of cotton, wheat, tobacco, and rice have ranged between 25 per cent and 50 per cent of the entire crop.[5] Because

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[3]Howard R. Smith, op. cit., pp. 162-168.

[4]Homer L. Brinkley, A Statement in the hearings before the Committee on Agriculture and Forestry, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, 83rd Congress, Washington, D. C., (1953), p. 168. See also, Trenton, "The Farmer's Stake in our Foreign Economic Policy", those produced domestically in insufficient volume, and those with volume claimed to be sufficient. The total of both catagories make up less than 10 per cent of domestic agricultural production if those commodities under price support levels which are above the world market price are excluded.

[5]"Foreign Agricultural Situation," Foreign Agricultural Service, USDA (Washington, D. C., October 1953), p. 16.

the volume of employment of the factors of production depends on output changes in amounts of exports will be felt by farmers producing these exports. Before 1940, cotton accounted for one-half or more of the total agricultural exports of the United States. Since then its percentage of the export market for agricultural commodities has fallen to around 30 per cent. The total number of bales exported had dropped from 8.8 million before 1914 to 5.3 million in the late thirties.[6] Regardless of the quality and reputation of American farm products their sales have been declining in the world markets. Unless the American farmer and American industry are willing to allow an increase of imports, the level of exports will, in the absence of some sort of an export support program, probably continue to decline.[7]

The encouragement of some imports which might compete with domestic producers would seem to be the answer to the problem of increasing exports. Should cotton, or any other commodity, bear the brunt of import competition? Which commodity should be encouraged as an export? On broadly theoretical grounds the level of factor employment and efficient use of these scarce factors should determine which crops, as well as which industrial goods, will enter foreign markets and which crops and goods must stand on their own against competing imports. If markets were free to determine prices there would eventually be in the market only those commodities which could compete with foreign products. At the present time, however, with import restrictions, with most would-be purchasing countries suffering short-

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[6] Marketing, The Yearbook of Agriculture, USDA (United States Government Printing Office, Washington, D.C.1954)4), p. 78.

[7] Ibid., p. 85.

ages of dollar exchange, and with artificially maintained domestic price levels there is very apt to be less than maximum use of productive facilities. Would-be export commodity production factors must be retired, shifted to other industries or maintained in the present pursuit by relying on government purchases and dumping.

If we are to maximize the productive capabilities of our land, labor, and capital, and thus maximize the benefits of comparative advantage, there should be a shifting of such factors from the less productive crops to the more productive ones and to non-agricultural pursuits. The ffects of the immobility of the factors of production would be partially remedied by the movement of goods created by these factors. When export crops are reduced the whole agricultural economy feels the effect. Land, once used for export crop production becomes competitive with land used for domestic market production when the exporter who loses his foreign market begins competing for a home market.[8]

Foreign investments in production facilities of imported commodities have sometimes served as an outlet for export capital from the United States. Often, however, such commodities may be excluded in order to benefit a group of domestic producers who otherwise could not meet competition. American investors with an abundance of capital resources relative to labor and certain types of land will often seek

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[8]This idea seems to be generally accepted among economists and was presented as general information to a recent Senate Committee by the Assistant Secretary of Economic Affairs, Department of State, Harold F. Linder, A Statement in the hearings before the Committee on Agriculture and Forestry, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, 83rd Congress, Washington, D. C., (1953), p. 48.

more profitable investment opportunities in a different area. By way of illustration, much of the sugar production in Cuba has been financed by United States investors. There has been a tariff, often nominal, and a quota limitation on imports into the United States.[9] In addition to being an outlet for two-thirds of a billion dollars of American investment, Cuba is also a heavy importer of American-produced goods and services.[10] Cuba imports around $100,000,000 worth of agricultural goods a year from the United States.[11] Without the limitation on shipments of sugar into the United States, which has aided in the return of around $350,000,000 to Cuban agriculture each year since 1950,[12] it is possible that Cuba would be an even better market for American investment, industrial goods, services, and agricultural commodities. Table I shows the foreign trade in agricultural commodities that has taken place between Cuba and the United States from 1945 to 1955.

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[9] Factors Limiting United States Investment Abroad, Part I, Survey of Factors in Foreign Countries, United States Department of Commerce (Washington, D. C., 1953), pp. 30-31.

[10] The major achievement of the United States sugar legislation has been to strengthen the purchasing power of Cuba, the Phillipines and other foreign sugar suppliers. The price however, averaged about 1.8 cents above the world price between 1953 and 1956. World shortages in 1951 and 1957 caused the world price to go above domestic price with the 1948-1957 average domestic price about one cent above the world price. Foreign Trade Policy, "Compendium of papers on United States Foreign Trade Policy." Subcommittee on Foreign Trade Policy, Committee on Ways and Means, (Washington, D. C., United States Government Printing Office, 1957), pp. 689-691.

[11] Foreign Agricultural Trade, Statistical Handbook, USDA, (Washington, D. C., 1956), p. 16.

[12] Ibid., p. 25.

TABLE I

VALUE OF AGRICULTURAL EXPORTS TO CUBA AND IMPORTS TO THE UNITED STATES FROM CUBA IN MILLIONS OF DOLLARS

	1945-49	1950	1951	1952	1953	1954	1955
Exports	119.0	128.4	159.0	154.0	143.3	133.2	107.6
Imports	341.4	376.6	303.5	390.4	377.9	377.9	N.A.

SOURCE: Foreign Agricultural Trade, Statistical Handbook, USDA, Table 20, p. 16, and Table 27, p. 25.

Specialization means that factors most abundant become more efficiently used in all trading nations, for specialization facilitates mass production and mass markets. Trade and specialization of this sort will tend to lead to a stable equilibrium between trading nations. Farm commodities that are produced under increasing costs caused by excessive use of scarce factors will shift factors until all are used at the same margin of efficiency. At this equilibrium level the cost of crop production that had been unwisely extended will have become cheaper.[13] Crops that had been less than fully developed because of lack of export markets will also become cheaper because the factor combination has become more efficient.

Inefficient and Efficient Producers

Increasing productivity, a measurement of increasing efficiency,

[13]Brainard, op. cit., pp. 146-147.

may be determined by changing ratios of inputs to outputs. One way of determining the effects of trade restrictions on efficiency is to compare factor costs of various crops and see how such costs have changed. All costs have risen since before World War II, but input costs have increased at different rates. To have the same factor-cost ratio per commodity now as twenty years ago, the productivity of each crop would need to have undergone a gain equal to any increasing cost of input applicable to the crop in question but not to others. Such an equalization, however, is practically impossible, for the realtive costs of producing crops have changed in the last few years, and there have been changes in the ratio of inputs per crop to offset the differing input costs.

Although wage rates for farm labor have more than quadrupled since 1935-1939, and many other input costs have more than doubled, costs of production have generally not registered comparable increases. The ability to increase the ratio of units of output to input used in order to offset increasing costs is more noticeable in some commodities than in others. The use of machinery has done much to account for this. In some instances, labor costs increased at about twice the rate of machine costs, and consequently machinery replaced labor. The use of fertilizer increased to such an extent as to offset land costs which, in turn, increased faster than the cost of fertilizer.[14]

The shifting of the factors of production as the cost ratio changes

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[14] Agricultural Outlook Charts 1956, Agricultural Marketing Service, USDA (Washington, D. C., November 1954), pp. 18, 62.

is far easier in the production of some crops than others. Since trade itself normally tends to reflect increases or decreases in efficiency of production, it is to be expected that commodities in the production of which the factor ratios do not adjust in such a way as to offset increasing costs of a particular factor are losing their place in the pattern of exports. Imports would be expected to increase to compete with such commodities on the home market. However, what actually transpires in such cases may be illustrated by reference to several of our major crops.

Wheat production in the Plains States has had one of the greatest increases of productivity among our agricultural commodities. In spite of this, since 1948 the United States has lost nearly three-fourths of its market for wheat exports. Cotton farming, which in some areas still makes mass uneconomic use of resources has lost only about one-fourth of its export market during the same period of time. Tobacco farming in the tobacco-livestock farm area of Kentucky has seen very little increase in productivity and has actually lost relative to wheat farming. Nevertheless, tobacco exports have increased by 12 per cent since 1948.[15] Table II shows some of the relative changes in farm production per unit of input that took place between the 1930's and 1956.

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[15] Ibid., Table 12, p. 62, and Table 98, p. 84.

TABLE II

COMMERCIAL FARMS PRODUCTION PER UNIT OF INPUT
INDEX NUMBERS BASED ON 1930-1939 = 100

Location and Type of Farm	Production per Unit of Input
Northern Plains Spring Wheat (wheat, small grains, livestock)	187
Kentucky Tobacco (Tobacco, Livestock)	124
Southern Piedmont Cotton	99
Mississippi Delta	129
Blackland, Texas (cotton farming)	97

SOURCE: Agricultural Outlook Charts 1956, Table 12, p. 62.

Using 1947-1949 as the base year, one is able to compare some of the differing rates of changing efficiency among farm commodities. Manpower in all farm work had declined to 88 per cent while farm output had increased to 123 per cent by 1953. The number of tractors had increased from 2,735,000 in 1947 to 4,400,000 in 1953. The number of trucks on farm had increased during the same period from 1,700,000 to 2,550,000; combines from 465,000 to 918,000; corn pickers from 236,000 to 615,000; and the number of farms using milking machines has increased from 525,000 to 715,000. During this period the tobacco production per man-hour had only increased to 103 per cent of 1947-1949 levels. Feed grains had increased to 158 per cent, food grains to 132 per cent, oil crops to 158 per cent, sugar production to 139 per

cent, cotton to 129 per cent, meat animals to 105 per cent, fruit and nuts to 108 per cent, and vegetables to 110 per cent.[16] Table III shows the general decrease in man-hours of labor required for production of various farm commodities between 1948 and 1953.

TABLE III

INDEX NUMBERS OF MAN-HOURS OF LABOR USED FOR FARM WORK BY GROUPS OF ENTERPRISES (1947-49 = 100)

Commodity	1948	1949	1950	1951	1952	1953
Meat Animals	98	100	103	108	109	109
Tobacco	94	96	97	109	108	99
Fruit & Nuts	99	98	98	100	96	93
Vegetables	101	97	95	91	89	91
Cotton	103	107	65	93	89	89
Sugar Crops	96	87	96	74	74	77
Food Grains	100	93	73	74	76	73
Feed Grains	105	93	85	74	68	64
Oil Crops	104	81	77	72	64	64

SOURCE: Changes in Farm Production and Efficiency, PERB Series, USDA, Table 9, p. 28.

Using such efficiency increases as have just been noted as a criteria for improving a crop's ability to enter the world market, one

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[16] Changes in Farm Production and Efficiency, Production Economics Research Branch Publications, PERB Series, USDA (Washington, D. C., 1954), pp. 28-31, 36.

might expect to find certain increases and certain decreases in the foreign trade make-up of the above crops. Oil exports, feed grains, sugar, food grains, and cotton should be going more into exports or at least meeting less import competition. Tobacco, meat animals, fruits and nuts, and vegetables should have declining exports or an increase of import competition. Actually, however, these expectations have not always been realized. Exports of apples, pears, prunes, and oranges have declined in the world market. Rice exports have increased. On the other hand, the amount of tobacco exported has not decreased but seems to be gaining, even though it is relatively less efficiently produced now than wheat, which has lost some ground.[17] Although wheat was losing ground in relation to tobacco exports, it is far more efficiently produced now than formerly if man-hour output is a criterion of efficiency.

The lack of any apparent pattern of correlation between efficiency based on the man-hour criterion and foreign trade of agricultural products is hard to explain. Worldwide trade imbalances accompanied by foreign exchange shortages, trade restrictions, and various support programs undoubtedly lead to less than maximum efficiency in the use of production factors. In addition, one cannot safely isolate agricultural products, but must consider them as only a portion of the total of the products of the nation's economy. Then too, the elasticity of demand for exports from the nation may well mean that certain exports, although they are effi-

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[17]Ezra Taft Benson, A Statement in the hearings before the Committee on Agriculture and Forestry, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, 83rd Congress, Washington, D. C., (1953), p. 41.

cient users of the nation's factors, are overlooked in favor of other exports that the importing nation is unable to obtain from any other supplier.

Domestic Sales and Prices: Export-Import Sales and Prices

Except for trade barriers and the cost of shipping, the prices of goods in all countries would be approximately the same. Prices have a tendency to become uniform within the nearly barrierless marketing area of the United States. The price for cattle throughout the country is set at the terminal markets by the action of sellers and buyers. Other markets vary somewhat as supply and demand shift, but basically the prices are determined by trading at the terminal markets. Any area that has prices which appear out of line quickly undergoes an adjustment. For example, if for some reason Baton Rouge's supply of butcher calves was short enough that prices were forced up by demand, there would be a diversion of carcass meat from other areas to the Baton Rouge area and the price would return to normal.

Whenever a local market must pay more for its cattle than at the central market, and if that amount is above the cost of transportation, then livestock will be purchased where the price is lower. The decreased amount of buying at the area of high price will cause a decline in the price.[18] This is the picture of a market price being set and maintained under the conditions of a free play of supply and demand. This is the type model most often presented to explain market price phenomena. Yet within the United States there has not always been a

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[18] Marketing, The Yearbook of Agriculture, op. cit., p. 400.

complete freedom for supply and demand to determine price. If competition had been permitted, the domestic prices could and probably would have been determined as the model would indicate. Instead, conditions came to be such that, in 1948, the Department of Justice filed suit against Armour, Swift, Cudahy, and Wilson in an attempt to break up these four firms into fourteen independent firms in order to restore competition in the meat industry.[19] This suit suggests that an element of monopsony may be present in certain areas of agricultural marketing.

Commodities entering foreign trade would, if restrictions were elimated, be sold and priced more nearly like the model of a domestic trade transaction. The only difference would be a larger marketing area, the world, instead of a smaller national area. With the increase in the size of the market the cost structure would change. More cost would be allocated for storage and transportation but less for production. Overall prices would tend to be lower. On purely economic grounds, the question of whether a nation should or should not trade does not differ from the question of whether each county of each state in the United States should trade. The need for trade will exist as long as costs of production including transportation are not equal.

A Plethora of examples could be cited in which domestic prices are generally higher than world market prices because of protection. In such cases scarce factors such as land, labor and capital are invested in ventures which are perpetuated by import restrictions.

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[19]Harry L. Purdy, Martin L. Lindahl, William A. Carter, Corporate Concentration and Public Policy (New York: Prentice-Hall, Inc., 1950), p. 555.

Similarly, many American export items have remained in the world market because the government has subsidized them in various ways. If one is to export, one must be paid. To be paid means, eventually, to receive goods or services. In many cases, however, the American exporter has been paid by taxes collected from Americans. Exports of many agricultural commodities as well as other goods and services have often depended upon government grants or government guaranties of private loans. Exporters have organized well enough to see to that. Harris, in a recent Congressional hearing, stated that the United States government subsidized exporters to the extent of $125 billion in the last thirty to forty years. The methods used were through government aid, assistance, loans, purchases of gold, and so forth. Harris says this has permitted foreign consumers to use $125 billion worth of United States exports that they did not pay for with imports.[20]

Many of the policies and practices of our government affecting the demand for an prices paid for some of our export commodities have hindered the best resource allocation. Lend-Lease and other activities during and following World War II have no doubt diverted scarce factors into the production of crops that are no longer capable of competing

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[20]Seymor E. Harris, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Washington, D. C., (1956), pp. 58-59, hereinafter cited Harris, Statement in Congressional Hearings, This information presented to the committee was taken from his book International and Interregional Economics (New York: McGraw Hill Book Co., Inc., 1957), pp. 324-337. Harris contends that attempts to overcome this continued imbalance of payments should not be entirely directed to use of tariff policy with the burden placed on import-competing industries.

for world markets. Should these resources remain in the production of commodities for a vanishing market? World market prices say 'no' but domestic policy often says 'yes.' Assuming that world market prices should determine our policy, the question arises, should the displacement of production factors be swift, slow, or never. Many domestic producer interests say never; some free traders, who think like Charles Taft and Howard S. Piquet, say as soon as economically possible; and Harris in his defense of protection for the New England textile industry says very slowly. Another fact which cannot be overlooked is that world prices are often not free to reflect degrees of efficiency. In many cases national policy sets prices as well as quantities in the various producing countries.

Secondary Employment

The protests against imports and the demand for protection come not only from those producing a commodity which has to be protected, but also from those serving the needs of such producers. This attitude is far from being new. The towns and merchantmen that were dependent upon the indigo farmer and rice planter in colonial times were in favor of a protected market for those products. Loudest and most insistent in approval of restrictions are the voices of those who stand to gain most by them. These include not only the actual producers of protected commodities but also those who serve those producers; profit also accrues to banks, storekeepers, newspapers, transportation agencies, and the labor force of all such organizations as provide ancillary services for a protected industry.

Once capital is invested and labor trained to produce a given crop, a sudden shift away from this crop is not looked upon favorably

by either the producer or his ancillaries. The lily growers of the northwest as well as those who were secondarily dependent on bulb sales were hard pressed when bulb imports were resumed after the end of World War II. Land values had skyrocketed. The area in and around Corbett, Oregon had never before seen such a boom. The populace, to a man, was against a return to imports. The same held true for the residents around Beaverton, Oregon when imports of filberts again began to reach the American market. The almond growing area in San Luis Obispo County, California was equally upset when almonds from the Middle East again reached the American market.

When the production of a commodity becomes a part of the pattern of an economy there will be repercussions if production ceases. Regardless of how the end of production comes, some vested interest are bound to be hurt. This has been noted in the shifts from cotton production in areas of the South, lumber production in Maine and Wisconsin, fish-wheel salmon fishing on the Columbia River, and production of numerous other commodities that have been discontinued in various parts of the nation. This may be called a process of equilibration within a dynamic economy or of equilibrium economics in a developing economy.

Harris, in his study of the New England textile industry, concludes that an adjustment necessitated by changing economic conditions requires a long period of time. The change is probably inevitable; textile investment and labor will seek other outlets, but the change, if sudden, will make adjustments difficult. If tariffs and import restrictions can allow an industry to make a gradual adjustment over a twenty-year period the adjustment will be easier to make than one

attempted in a short period of time. In addition Harris points out that in the case of New England a large area is suffering the pains of readjustment and for this reason the adjustment is harder to make than in a small area.[21]

There may be centers of prolonged unemployment brought about by readjustment of production factors such as in New England. These centers cause depressed conditions. Payrolls are down or non-existent. Services dependent upon a larger and more active labor force are no longer needed. Tax receipts are down. Schools, government activity, and transporation facilities are forced to curtail or discontinue services. Such elements in the picture of an industrial area often lead to demands for protection by those dependent on a certain commodity being produced.

Domestic Policy and Foreign Trade

One of the major farm problems of today arises from the overproduction of some farm products. Too many of the productive factors are being used to produce these products. Farm incomes would be lower than that which is considered a fair return if prices were allowed to fluctuate in order to clear the market.[22] Domestic farm policy is designed to increase the incomes of those dependent upon agricultural production, yet our foreign trade policy is designed to expand multilateral trade. Are these two goals compatible? It is probable that serious differences will tend to exist as long as farm policy is mainly occupied with price support matters and trade policy primarily

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[21]Harris, Statement in Congressional Hearings, pp. 77-81.

[22]CED, Economic Policy for American Agriculture, (New York: Committee for Economic Development, 1956), p. 4.

concerned with increasing world-wide trade.

The farmer's side of the foreign trade-domestic policy problem is presented by John A. Baker of the National Farmers' Union, as follows:

> "I do not believe that United States farms which produce for export or which produce commodities that must compete with imports should be asked to bear the full cost, respecting this production, of an intelligent United States foreign policy. I accord the same right and privilege to other domestic raw material and industrial producers. The benefits of better international economic co-operation accrue to all the people and the temporary costs involved should be borne by all the people."[23]

Professor Thorp presents the trade side of the picture thus:

> "Since 1950, our gross national product has increased $105 billions. Our total of $391 billion for 1955 compares with $361 billion in 1954. The total number employed in the labor force has increased to new peaks. Within these totals there have been major changes in products, processes, and plant location. For the most part these changes have been responsible for our growth. And within this total picture of a dynamic economy, I find it difficult to feel that we need to give special attention to minor adjustments which might result from continuing the gradual liberalization of our trade policy."[24]

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[23]John A. Baker, A Statement in the hearings before the Committee on Agriculture and Forestry, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, 83rd Congress, Washington, D. C., (1953), p. 41.

[24]Willard A. Thorp, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Washington, C. C., (1956), pp. 88-89.

Quotas, Tariffs and Price Supports

Such widely different policy voices as have just been referred to gain greater concreteness and pointed meaning when emphasis is given to the implements which are used for putting a policy into effect. Prominent among these implements are quotas, tariffs, and price supports. Import quotas may be absolute, simply restricting the amount imported during a specific period; or there may be tariff quotas, which allow certain quantities to enter free of tariff, or at a favorable rate, and the remainder at the regular tariff rate. The quota, as a restrictive measure against imports, is especially acceptable to farm groups as an adjunct of domestic farm price policy. Since quotas on imports tend to limit supply, their use is perhaps the easiest method of maintaining domestic prices above world prices. Combining absolute import quotas with domestic production quotas is an assured method of supply control.

Well aware of the effectiveness of this combination of quotas the sugar industry pressured Congress to such an extent that both quotas were incorporated into the sugar acts. The Sugar Act of 1948 has been referred to as a "legal monopoly," yet it was accepted even though it appears to contradict the liberal trade policies which the United States has urged upon foreign countries. Many of the countries adversely affected by the quotas of this 1948 sugar act are in the Western Hemisphere where dollar balances are short.[25]

Import quotas when used either separately or with tariffs are useful in the successful administration of agricultural price support

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[25]C. Addison Hickman, Our Farm Program and Foreign Trade (New York: Council on Foreign Relations, 1949), pp. 58-61.

programs. Without limitation of imports on a crop which is receiving support above the world price the supporting government would, in effect, be supporting the entire world production. The problems of supporting a domestic crop without limiting output would be greatly aggravated by the large number of producers involved in operating a plan on a global basis. Again, the assurance of government purchases supplementing consumer demand at a given support level has brought forth bumper crops. Government purchase and storage of commodities has also brought about marketing quotas. Thus if a supported crop which is import-competing needs domestic marketing quotas to equate supply to demand at the supported level, it follows that import quotas are also necessary. The authors of the Agricultural Adjustment Act were aware of the need for import restrictions and to meet this need enacted Section 22 of that Act in 1935. This Section provides for the use of quotas or fees on imports that may tend to interfere with or render ineffective any price support or marketing program.[26]

American agriculture, with a few exceptions such as sugar and wool growers, was not much concerned with foreign competition until World War I. Agricultural tariff protection on a large scale began with the Emergency Tariff Act of 1921, and the Fordney-McCumber Act of 1922. It was later buttressed by the Hawley- Smoot Act of 1930. One of the objects of these acts was to aid farm price recovery following the collapse after World War I.[27] The United States, however,

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[26]Benson, op. cit., pp. 10-11.

[27]Hickman, op. cit., p. 55.

has such a makeup of agricultural imports and exports that a tariff has little protective value for most crops. The total volume of exports from the United States is around 3 per cent of total production. Of this small portion of products that are exported, agricultural products make up a large part. This is especially true of such crops as cotton, wheat, tobacco, and rice which seek foreign markets in the amount of approximately 40 per cent of the entire output. Tobacco, fresh fruit, soybeans, and lard, have depended upon foreign markets to provide their profit margin. While only 3 per cent of the total United States production is exported, about 20 per cent of all exports are agricultural in nature.[28] The South according to Efferson exports nearly 20 per cent of its agricultural output. Nearly 60 million acres of crop land in the United States are required in raising our agricultural exports, and the income from exports of agricultural goods supports around 18 million Americans.[29]

Of the total United States imports, about onehalf are agricultural products, including tropical fruit, tea, coffee, cacao, and rubber.[30] These crops have no competing production in the United States; consequently a tariff on them would not help any domestic producers. On the other hand, cotton, wheat, tobacco, rice, and the other crops which

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[28]J. Norman Efferson, Southern Agriculture and World Trade, Mimeographed Circular No. 159, Department of Agricultural Economics, College of Agriculture, Louisiana State University, 1954, pp. 12-13. Data from the Statistical Abstract of the United States 1957, shows exports to average close to 4 per cent since 1929. Foreign Agricultural Trade, Statistical Handbook, USDA, p. 1, gives agricultural exports as per cent of total exports at above 20 per cent for all but a few years, mainly during war periods.

[29]Efferson, op. cit., p. 2.

[30]Ibid., p. 2.

make up the bulk of our exports cannot be protected by tariffs. Regardless of any tariff "help," export commodities must sell for the going price on the world market. An import tariff on export commodities gives no price or income assistance as far as the export shares of such crops are concerned. Such a tariff may exclude competing imports from the domestic market, but unless the domestic price is artificially pegged, domestic production will drive the price down to that of the world market unless the cost structure precludes so low a price, in which case exports will cease.

Our Reciprocal Trade Agreements Act of 1934 has been followed with tariff reductions which, in the main, have been applied to products that have never been subject to import competition. The commodities that actually make up a large part of the import competition with domestic producers have been protected more by quota restrictions.[31]

The Agricultural Act of 1948 took some steps toward reducing the cross purposes of farm policy and foreign trade policy. The re-examination of parity rates on different commodities resulted in an attempt to reduce over-valuation of some crops that appeared to maintain chronic surpluses.[32] The depression legislation of the Roosevelt era was primarily directed toward raising prices. To do so the agricultural Adjustment Act of 1933 was passed with a sliding support scale ranging from 52 to 75 per cent of parity on certain basic crops. This support level was deemed adequate to restore farm incomes to the proper relationship with other income groups. The war needs, which necessitated a

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[31]Hickman, op. cit., pp. 55-57.

[32]Ibid., p. 68.

change in objective from adequate income to that of stimulating production, resulted in an increase of the parity rate to 85 per cent and later to 90 per cent. These latter ratios were maintained after hostilities ceased. It was not until 1954 that Congress allowed this stimulus to production to be lowered.[33] The program of high parity prices supported by the government has shown that attractive price levels lead to over-supply at the demand schedule for those prices. If the producers are to continue selling their produce at the artificially high price, one of two things can happen. Either the government must buy the supply that the consumers do not want at that price, or else production must be restricted.

Under present domestic policy, price supports are mandatory for basic crops.[34] "Basic" crops are: corn, cotton, wheat, rice, tobacco, and peanuts. Certain non-basic commodities also have mandatory supports. These commodities include wool, mohair, tung nuts, honey, milk, and butterfat. Other crops are supported at the discretion of the Secretary of Agriculture. The supports are maintained by loans, purchase agreements, and outright purchases of all but wool and mohair, which are supported by incentive payments.[35]

The minimum price support level of basic crops since World War II, contingent on the producers accepting marketing controls, was 90 per

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[33] Marketing, The Yearbook of Agriculture, op. cit., p. 400.

[34] "Basic crops" appear to have become basic, to some extent, because enough political pressure was brought to bear on that classification. When this was done the so-called "basic" crops appeared to receive preferential treatment at the expense of other agricultural crops. How rice and peanuts ever became tagged as basic crops probably remains a mystery, even to those who produce them.

[35] Farm Policy Dictionary, Let's Agree on Terms Used in Making Agricultural Policy (Columbus, Ohio: Agricultural Extension Service, The Ohio State University, 1956), pp. 4-5.

cent of parity until 1954 when it was made "flexible," ranging from 75 per cent ot 90 per cent of parity. If marketing controls are not voted, the cooperators in the support program are entitled to 50 per cent of parity supports.[36] A price support policy of 85 per cent and 90 per cent of parity was considered to be necessary in order to have a "stimulating" effect on production. But under today's much changed conditions, it can easily be seen why supports of many crops at high levels require marketing quotas. And with domestic marketing quotas it is necessary to limit imports of supported commodities.

Decline of Exports of Agricultural Goods. Some Consequences

The foreign trade of the United States has shown a steady decline of agricultural products in the percentage structure of total American exports. This trend was reversed temporarily after World War I and again after World War II. The dollar value of agricultural exports showed a growth trend, though somewhat erratic at times, from 1865 until 1920. Following World War I, agricultural exports were stabilized somewhat until the depression, at which time foreign trade in general collapsed. About one-third as much dollar value of exports of agricultural goods was recorded during the depression period and before World War II as during the 1920's. During World War II the export of agricultural goods increased in value but not nearly as rapidly as non-agricultural goods. Following that war such exports remained high and even increased on a percentage basis until the Korean War started. Since the Korean conflict agricultural goods have under-

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[36] Ibid., p. 5.

gone a dollar value as well as percentage decline in the United States export pattern.[37] Table IV shows the pattern of exports for several selected years.

TABLE IV

UNITED STATES EXPORTS*

Year	Total Exports Million Dollars	Agricultural Exports Million Dollars	Agricultural Exports as a Percentage of Total
			Per Cent
1922	3,887	1,798	46
1931	1,908	752	39
1939	3,744	738	20
1946	12,725	3,610	28
1953	15,226	2,936	21

*Selections were made from USDA publication Foreign Agricultural Trade, with an attempt to show representative years.[38]

The increase of imports following World War II was accounted for largely by commodities not produced at all in the United States and by commodities which we are unable to produce in sufficient quantities to

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[37] Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit., Table I, p. 1.

[38] Ibid., Table I, p. 1. At the present time, 1955-1958 agricultural exports are, in terms of current dollars, at an all time high. Even with constant dollars todays exports are above most post war years. A large portion of these exports are made up of U. S. attempts to dump past accumulated "surpluses." Since 1954 government export programs have been stepped so that 40 per cent of agricultural exports are under some form of government program. See Section III "Factors Supporting High Exports," The Problem of Maintaining High Level Agricultural Exports, USDA. (Washington: Foreign Agricultural Service, 1957).

meet consumer demand. The loss in export markets following the Korean conflict came about as a result of an economic conditions that can be expected to follow the end of an era during which exports were stimulated in order to feed and clothe our allies and the occupied territories. As these nations again became able to feed and clothe themselves, their need of economic aid, including foodstuffs and fibers, declined. This was matched by a decline in export crop production which released hundreds of thousands of acres from export production and permitted production of import-competing crops. With the shift away from some export crops, more commodities were thrown on the domestic market to be taken by consumers at lower prices or, in some instances, taken by the government under support programs.

Acreage restrictions were relied upon to reduce the build-up of "surpluses" in some supported crops. Thus wheat exports during the period 1950-1955 decreased by more than one-half. From 1948 to 1955, the Economic Cooperation Administration purchased nearly $2 billion worth of wheat for export shipment.[39] This aid helped stimulate wheat production, and when it was reduced it left a vacuum in the demand for United States wheat. During the same period, 1948 to 1955, the E. C. A. purchased over $2 billion worth of cotton, $398 million worth of corn, $35 million worth of rice, $453 million worth of fats and oils, along with many more millions spent on fruits, milk, cheese, wool, and

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[39]Edwin D. White, Deputy Director, Office of Food and Agriculture, Foreign Operations Administration, A Statement in the hearings before a subcommittee of the Committee on Agriculture and Forestry, DISPOSAL OF AGRICULTURAL SURPLUSES, United States Senate, 84th Congress, Washington, D. C., (1955), pp. 288-289. This information was collected by the Department of Agriculture as previously requested by the subcommittee to be presented by Mr. White at the hearings.

tobacco.[40] In addition to such E. C. A. activities there were numerous other acts and programs which stimulated production for export by granting aid to allies and occupied areas during and after World War II and the war in Korea.

Wheat, as an example of war-stimulated production, increased in quantity of output by some 50 per cent from 1939 to 1946. Wheat acreage increased from 57 million acres average 1935-1939 to 71 million acres average 1945-1949. The exports of wheat largely financed by United States taxpayers was, in 1948, five times that of late 1930's.[41] This wartime stimulation encouraged the transfer of productive factors into wheat growing. Some observers contend that it is the government's responsibility to see that successful peacetime adjustments are made. Recognition, so they insist, should be given to the need of readjustment rather than a continuation of attempts to maintain exports of an emergency level.

As important as is the agricultural share of exports, it is steadily declining. A two-way trade offers a workable solution for maintaining exports of American commodities in world trade channels. Unless American consumers and industries are willing to increase imports to a level that will approximate exports, American sales in the world market will continue to decline.[42] The alternative to increasing imports seems to be a continued support program with production quotas. Some of the programs that have been considered in order to reduce our unsold agricultural products are the soil bank program, increased consumption,

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[40] Ibid., p. 290.

[41] Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit., Section III, Commodities, passum.

[42] Marketing, The Yearbook of Agriculture, op. cit., p. 85.

the Brannan Plan, gifts to needy nations, forward pricing, two-price plans and export subsidies. These programs will next be briefly reviewed.

The Soil Bank

The soil bank plan is a means of paying farmers for shifting soil, ill-suited for production, into soil-building and land-conserving crops. By this program, productive factors used for crops that had been stimulated into export patterns by war needs, and which are not well-suited for the production of domestic or import-competing crops, are to be diverted from production. With such diversion, the exportable surpluses would be reduced and uneconomic competition for domestic markets could be avoided. The domestic markets would be spared the depressing effects of increasing supply diverted from producers of crops for which the export market has been lost.

There are two suggestions for administering the soil bank. Land could be diverted from production and permitted to go to grass for perhaps three to ten years in order to restore fertility. Payment for such idleness could be by cash or in "surplus" commodities. This suggestion would, in effect, provide an acreage reserve similar to the government's moth-balling of naval vessels which are held on a stand-by basis until needed. The alternative to the creation of this stand-by productive capacity is the permanent diversion of less productive land into forestry preserves, forage, or water sheds.[43]

The Yazoo-Little Tallahatchie flood prevention project is an example of what can be done in a conservation program coupled with the

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[43]Farm Policy Dictionary, op. cit., p. 16.

reduction of "surpluses" of an export commodity. Excess cotton production was one of the major causes of this region's deterioration. Cotton farming along with over-grazing and poor logging procedures had, by the early 1940's, reduced incomes in the Yazoo Watershed to less than $500 per family for some 36,000 farm families. The pressure on this land was high, with 112 persons per square mile. In 1936 The United States Corps of Engineers began flood control work, and in 1946 the flood prevention project was aimed at soil conservation. Almost one-fourth of the cropland in the area is now being properly managed with the application of conservation measures. Land has been reforested and taken out of single-crop production and rotation is being practiced on 225,000 acres. A strong trend has developed for cattle raising and grassland farming. Much soil-building lespedeza and kudzu forage is now the basis of this shift from cotton to diversification.[44]

Increased Consumption

The efforts on the part of the producers and the government to increase consumption have been attempts to reduce "surpluses" and thus offset the loss of export markets as well as decreased domestic sales of farm commodities. One plan has been to divert farm products into domestic relief channels. Three methods have been used to divert commodities to low income groups: the food stamp program, the school lunch program, and relief milk distribution. Compensatory payments have been

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[44] Water, The Yearbook of Agriculture, USDA (Washington, D. C.: United States Government Printing Office, 1955), pp. 199-205.

suggested as a means of increasing consumption by lowering the price to consumers and thus boosting consumption.[45]

The Brannan Plan

The Brannan Plan would use the moving average of the first ten of the last twelve years to calculate parity. Price supports for storable commodities would be at 100 per cent of parity and the plan would make use of production controls, marketing quotas and subsidies. Non-storable commodities would receive production payments high enough to maintain an income level corresponding to that received on storable commodities. Payments would depend upon compliance with production and marketing control regulations. A base income level was proposed above which the farmer would receive no support payments.[46] Under this plan the government could sell the supported commodities at the market price. This would have solved the problem of storing "surpluses" and would have given the consumers lower prices. The cost, while possibly less for the economy than the cost of a price support program, would undoubtedly channel more money through the government's hands. Direct payments by the government, while no more of a burden to society than the higher prices and storage costs of a price support program, are more obvious.

Forward Pricing

Those favoring price policy revision claim that this method of support will interfere less with foreign trade than long-term price

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[45]Farm Policy Dictionary, op. cit., pp. 12-13.

[46]Ibid., pp. 17-18.

supports. Prices would be announced far enough in advance for farmers to make intelligent production plans. These prices would remain stable long enough to permit the completion of at least one crop harvest. Such prices would be calculated in a manner that would keep supply in line with forecast demand.[47] Forward prices, if used as a tool to discourage production of crops that have excess supply on hand, could re-direct resources from one crop to another. However, this plan would probably not direct resources away from agriculture and maintain satisfactory farm income levels any better than other support methods, without making use of marketing quotas or production controls.

Export Subsidies

A problem of how to clear the domestic market arises whenever the domestic price of a commodity which is normally exported becomes higher than the world market price. First, the export market will be supplied by foreign producers who are, in effect, being induced to produce more than they normally would. Second, without import quotas foreign producers will sell their produce in the United States market. If the domestic market were free to react to supply and demand pressures this problem could not arise. Thus, whenever a support program on an export-oriented commodity raises the domestic price above the world market price there is pressure on the government to sell the quantity of the commodity which begins to pile up in storage wherever and for whatever it can be sold.

Essentially, export subsidization amounts to nothing more than dumping. If the domestic price is above the price in the world market,

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[47]Hickman, op. cit., p. 69.

it is necessary to sell abroad at a lower price than in the protected home market. In effect, a two-price system is established whenever export commodities are subsidized. As commendable as it may be to dispose of accumulated commodities, that is, commodities which have accumulated because of a decreasing volume of exports and price support programs, the possible effects of such disposal by dumping should be studied before a dumping program is begun.

Jesness in the Congressional hearings in 1956 on customs and tariff laws emphasizes that as long as we restrict the sort of importing which we class as dumping by foreign nations, it is understandable that foreign nations might disapprove of United States dumping. Nations generally have methods of counteracting dumping when such an action appears to be advisable. The United States, under the Anti-dumping Act of 1922, may apply countervailing duties to offset any advantage gained in its markets by export subsidies on the part of other nations seeking to invade the United States market. Not only the nations receiving the "dumped" commodity, but other exporters of the same commodity, will view such actions as unfair competition. Jesness also suggested to the Congressional committee the lack of economic wisdom in giving others the benefit of lower prices at the same time that American consumers must pay higher prices as well as carry the cost of such a program through higher taxes.[48]

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[48] O. B. Jesness, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Washington, D. C., (1956), pp. 535-537.

Mexico and Canada have been uneasy over United States programs for selling increased amounts of cotton and wheat by reducing prices on government owned supplies. Denmark has been disturbed over the possibility of attempts to unload United States dairy stocks on foreign markets. The United States is not the one to determine what constitutes dumping; instead the determing factors are the reactions of other countries, their interpretation of United States action, and the effects of such action on them.

"Surplus" wheat has posed an acute problem, with a two-year supply for food needs in the United States on hand by 1955. During the six years preceding 1955 an export subsidy averaging about 60 cents a bushel had been in effect. Without this subsidy little wheat would have been exported, and even with the subsidy the United States share of world exports of wheat has been declining, while non-dollar countries have been increasing their exports.[49]

It appears that price support programs have created a necessity for a two-price policy or "dumping" in order to sell many of the United States export-oriented commodities in the world market. For example, with price supports on cotton, the domestic price is higher than the world market price. With the government buying cotton and storing it, quotas must be imposed to keep other nations from exporting cotton into the United States. However, the United States has no control over other cotton-producing nations when it comes to selling cotton to cotton-consuming nations which normally buy from the United States. With the support prices running between 10 and 20 per cent above the

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[49]CED, Economic Policy for American Agriculture, op. cit., pp. 6-7.

world market, there is an added incentive for other nations to increase output and undersell United States producers.[50] Mexico and Brazil both increased their cotton production under the protection of the United States support program. Some observers maintain that the program has been in effect so long now that there is no way of determining whether export price reflects efficiency, and thus forces inefficient foreign producers to shift resources away from cotton production, or if this price simply reflects the dumping power of the United States treasury.[51]

Mr. Schwenger points out that the use of export subsidies is not a tool which only one nation can use. In fact, the nature of some commodities entering the world market may force retaliatory export subsidies by nations which are hurt, or fancy they are hurt, by others. Certain Latin American nations have used multiple exchange rates as a means of subsidizing exports. For example, wool shipped to America for dollar exchange may get more local currency than wool shipped to a soft currency nation such as France. In some instances a subsidy of this sort amounts to as much as 40 per cent of the commodity's price. Greece has established export subsidies for tobacco, Israel for citrus fruits, France for cereals, fish, dairy products, and pork.

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[50] Ibid., p. 8.

[51] Lawrence Witt, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Washington, D. C., (1956), p. 544. See also Charles P. Kindleberger, THE TERMS OF TRADE A EUROPEAN CASE STUDY, (New York: John Wiley & Sons, Inc., and The Technology Press of The Massachusetts Institute of Technology. 1954), pp. 83-85.

According to Schwenger,

> "... export subsidization runs the risk, if there is a surplus situation, of becoming competitive between different export countries. This can drive the export price to low levels and create international friction. For countries depending heavily on exports of a few commodities, it can lead to serious economic difficulty.
>
> After the experience of the prewar period, it may be a deterrent to the extensive use of export subsidies."[52]

Subsidizing exports is not compatible with an expanding multilateral trade, a policy that the Department of Commerce and the State Department are attempting to carry out. If a subsidized commodity is withheld from world trade, no direct harm is done to other countries. However, export subsidies, as well as protective tariffs, tend to allocate scarce factors of production to crops that often have no economic justification for their cultivation in an economy. In addition, friendly trading nations may suffer injury. American advocates of export subsidies call such programs "stop-gap" measures. Regardless of their label they are a necessary part of any support program dealing with export commodities. In fact, such plans have been expanding rather than contracting.[53]

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[52]Robert B. Schwenger, Chief, Regional Investigations Branch, Foreign Agricultural Service, USDA, A Statement in the hearings before the Committee on Agriculture and Forestry, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, 83rd Congress, Washington, D. C., (1953), pp. 263-264. The possibility of retaliation when a nation resorts to export subsidization is cited in any foreign trade text. The use of such a commercial warfare weapon if it provokes retaliation may gain no advantage for the instigating nation. Agricultural Handbook No. 132, Agricultural Policies of Foreign Governments, USDA (Washington, D. C., Foreign Agricultural Service, 1957), p. 2 states that export subsidies, though important are decreasing.

[53]Hickman, op. cit., pp. 50-52.

Regulation and the Farmer

Traditionally, American farmers have been free traders. An exception has been the sugar producers and wool growers who had demanded and received protection long before World War I. The protection movement for agriculture began on a much broader scale in 1921 and was strengthened in 1930. These tariff measures were ineffective remedies as most agricultural commodities receiving protection from imports were export oriented.[54] As a result, renewed emphasis was given to these questions. Who needs the tariff? Who needs export subsidies? If they are needed, what are their effects on the individual farmer? Who makes farm policy, the farmer or the Farm Bloc?

The Farm Bloc according to Black consists of a group of Congressmen, mostly from rural states, who represent farm organization leaders and lobbyists with ideas sufficiently alike that they tend to strive for a common end. It is apparent that the legislative and administrative policy which this bloc supports may not always represent the interests of the farm people. Often the cotton trade stands to benefit more by proposed measures than the cotton farmers. The leaders and management often stand to gain more, both in the short and long run, from the measures they advocate than do the farmers on the land.[55]

There are wide income differences in agricultural production. Although agricultural income averages less than non-agricultural income there are many farm operators with quite satisfactory levels of living

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[54] Ibid., p. 55.

[55] John D. Black, Parity, Parity, Parity (Cambridge, Massachusetts: The Harvard Committee on Research in the Social Sciences, 1942), pp. 10-12.

by any standard. Some two or three million farmers have wages comparable to those of industrial workers, and 2 or 3 per cent of the farmers, those who produce about one-fourth of the farm marketings have very satisfactory incomes. At the other extreme are the farmers who are poor and who account for the very evident poverty in some rural areas. About one-third of the farm families have low productivity and low income. Ultimately, inadequate use or misuse of resources accounts for low productivity. The underemployed farmers tend to drag down the average income level.[56]

What effect does farm policy and trade policy have on the American farmer? The Farm Bloc, as has already been suggested, will, in its attempts to transform policy into legislation, largely reflect the interests of organized groups and lobbyists. Will this make the plight of all farmers better? Again, is national farm policy directed toward the best economic use of scarce resources? A crucial point affecting that larger question is that the problem of low farm income will not be solved until more people leave agriculture and until farms are reorganized in such a way as to raise their producing and earning capacity.[57] Without reorganization and better utilization of underemployed resources any regulation designed to aid "farmers" is apt to benefit a few a great deal and the majority very little. An ever-present danger is that with the Farm Bloc making and imposing farm policy and being capable of affecting foreign trade policy, it is probable that any concessions made by "farmers" will have very little

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[56]Harold G. Halcraw, Agricultural Policy of the United States (New York: Prentice-Hall, Inc., 1953), pp. 146-150.

[57]Ibid., pp. 360-361.

effect on the higher income group of farmers and those influencing the "Farm Bloc," while the brunt of any such concession will be felt by the farmers with the smaller incomes.

Farm Size and Production of Exports

In all that is said about farming, the problems of farmers, and price support aid to farmers, one seldom finds any mention of who is a farmer or what constitutes a farm. The 1950 and the 1954 Censuses of Agriculture counted as a farming unit three acres or more which produced agricultural products worth $150 or more. These products, accounting to that definition, could be either for home use or for sale. A "farm" of less than three acres must have produced for sale agricultural products in the amount of $150 or more. Land under the control of one person was considered as one farm. Land worked by a tenant or sharecropper was considered as a separate farm.[58]

Under the census classification, a retired doctor living in a city apartment would be a farmer if he sold $150 worth of mushrooms that he raised in his basement. Or a country squire with ten sons in the FFA, by leasing three acres to each son to raise a show steer, would be responsible for eleven farm statistics, if each son could sell his steer for $150 or more, provided of course, the squire had enough land left over to produce $150 income for himself. As contrasted to the above mentioned "farms," the King Ranch in Texas which takes half a day to cross, carries no more weight, as far as number of

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[58] 1950 United States Census of Agriculture, "Farms and Land in Farms," General Report, United States Department of Commerce, Bureau of the Census (Washington, D. C.: United States Government Printing Office, 1952), II, Ch. I, p. 5.

farms is concerned, than any one of the scores of "farm" operations embraced under the Census definition.

Agricultural support programs generally use averages of farm data as the basis for determining income needs. Average farm income would include Price x Quantity divided by number of farms. P. x Q. = a sum which, when divided by the number of "farms" gives the "farm income." Undoubtedly some farmers need help, but there should be cognizance of the differences in farms and what the "help" will accomplish for each of the different classes of farms.

The Census Bureau divides farms into two major groups: "commercial" and "other farms."

> "The 'commercial farms' were classified into six groups, classes I through V on the basis of value of farm products sold and class VI on the basis of value of farm products sold, off-farm work (less than 100 days) by the operator, or the relationship of the income of the farm operator and members of his family from non-farm sources to the value of farm products sold. "Other farms" were classified as part-time, residential, and abnormal farms."[59]

"Abnormal farms" are institutional units such as prison farms, school farms, experimental farms, and cooperative farms.[60]

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[59] 1950 United States Census of Agriculture, "Economic Classes of Farms," United States Department of Commerce, Bureau of the Census (Washington, D. C.: United States Government Printing Office, 1952), II, Ch. XII, pp. 1109-1110.

[60] Ibid., p. 1110.

Following is the census classification of 1950:

COMMERCIAL FARMS

Class of Farm	Number of Farms	Value of Farm Products Sold
I	103,231	$25,000 or more
II	381,151	10,000 to $24,000
III	721,211	5,000 to 9,999
IV	882,302	2,500 to 4,999
V	901,316	1,200 to 2,499
VI	717,201	250* to 1,199

*Provided the farm operator worked off the farm less than 100 days, and provided the income of the farm operator and members of his family received from non-farm sources was less than the value of all farm products sold.

OTHER FARMS

Part-time farms are farms with sales between $250 and $1,199 with more than 100 days employment off the farm or greater income from non-farm employment.

Residential farms include all farms, except abnormal farms, with sales bringing less than $250.[61]

The term "large Farm" applies if the farm sells farm products valued at $70,000 or more in a year.[62]

Commercial farms in the 1950 Census totaled 3,706,412. Other farms totaled 1,672,838. In 1940 there were 5,379,250 farms, but classes I, II and III farms made up only about 22 per cent of the total number of

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[61] 1950 United States Census of Agriculture, "Farm Labor and Farm Expenditures," United States Department of Commerce, Bureau of the Census (Washington, D. C.: United States Government Printing Office, 1952), VII, Ch. IV, pp. xxx-xxxi.

[62] Ibid., p. xxxii.

farms, yet produced over 70 per cent of the value of agricultural crops sold. Class I farms made up less than 2 per cent of all farms, yet they produced 22 per cent of all agricultural crops sold. Other farms accounted for around 30 per cent of all farms but produced less than 3 per cent of the farm sales. In fact, 78 per cent of all farmers were able to produce less than 30 per cent of farm commodities sold.[63]

Farm commodities are generally sold by grades. Cotton, wheat, wool, rice, and other supported commodities are classed according to specifications and supports are based on these classifications. Thus, cotton of comparable grade from a large farm will sell in the market for exactly the same price as cotton from a class VI commercial farm. With nearly 78 per cent of American farmers operating class IV, V, VI, and non-commercial farms, it can easily be seen that support prices, import quotas or any other programs based on price level manipulation will fail if the goal of the program is to increase the incomes of all farms to an acceptable level. There are instances where a program of 500 per cent of parity would not appreciably help certain "farmers."

When the price support programs were instituted the idea was to increase the living standards of the farmer comparable to that of other groups in the economy; in other words, to see that a just share of the distribution of the nation's income was obtained by the farmers. The use of import quotas, price supports, export subsidies and other programs have all been aimed at the same goal of increasing prices. By increasing prices, 70 per cent of the benefits in 1950 were paid to 22 per cent of the farmers and about one-fourth of the benefits to around 2 per cent of the farmers. About 44 per cent of the commercial

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[63]Calculated from data in the 1950 United States Census of Agriculture, "Economic Classes of Farms."

farmers received about 90 per cent of the benefits.[64] Thus, the farmers with incomes over $25,000 would receive nearly one-fourth of the price support benefits while farmers with incomes over $5,000 would receive about 70 per cent of the benefits from any support programs. It would appear that the farmers who are helped most by support programs are the farmers who least need help. Farmers who most need help are those who get the smallest benefit. In fact, it is possible that the program initiated to help the farmer actually harms the class V and VI farmer instead of helping him.

A large farm with much capital equipment and a good credit rating has a great deal more flexibility than a small subsistence-type farm. Thus when a 10,000-acre mechanized corporate farm has acreage restrictions imposed on its cotton crop, it is relatively easy to shift the lost acreage to some other crop. When a 20-acre farm which is producing cotton has its acreage reduced at the same ratio as the corporate farm there is not much choice for the proprietor. He might put in corn to feed his mule but he could buy more corn by selling the cotton he could have raised; so for him a 10 per cent above market support might mean a major loss of income because of the inflexibility that attaches to acreage restriction in his case. Lacking the flexibility that the larger farmer has, he may leave the farm to seek employment in town or may look for additional part-time work to supplement his income if he stays on the farm.

Regulations and the Exodus from the "Farm"

The farm-to-city movement is a phenomenon which has been developing in the United States for many years. The once predominantly rural

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[64] Ibid. "Economic Classes of Farms," Passim.

population is now four-fifths urban. Among the reasons for this movement are the higher birth rate in rural areas and the increasing efficiency and technology in farming. Any movement which entails change is due to be resisted by those who are, as individuals, adversely affected. The cotton producers today are not pleased when they see rayon and nylon being used almost exclusively in tire carcasses, or new highly water-resistant washable rayon coming onto the market. The dairy farmer was very vocal in his distaste for other edible fats which, it was discovered, could be used in making passable substitutes for ice cream and butter.

One of the greatest difficulties in easing restrictions on imports is the resistance of certain groups which are already import-competing. Among these groups are some important branches of agriculture characterized by slow growth and few alternative opportunities for a quick shift of resources. Returns in these pursuits are low as compared with returns in expanding export industries.

On the one hand factor returns would probably increase if emphasis were shifted from protecting import-competing commodities to assisting potential purchasers of United States produce to obtain the foreign exchange which could stimulate the export of more efficient crops. Yet it is widely believed that the displacement from presently protected inefficient producers must not be more rapid than the displaced resources can be absorbed elsewhere. The problem, then, is to absorb excessive employment of misused resources. This, of course, is an ever-present task even before any attempt is made to increase imports. Moreover, it is probable that increasing imports would lower the already low incomes and increased exports would raise the already high

incomes.

Basically, profits and income levels have been the major determining factors in the shift from farm to city. With the increased efficiency in the use of land, labor, and capital in agriculture, fewer inputs have given increased outputs. The fewer resources used in producing more agricultural commodities, the more resources there are available to produce the non-agricultural goods that are associated with a high standard of living. With greater efficiency in production and excess capacity, production has grown faster than demand, and the incomes derived from farming have tended to remain lower than incomes from other sources. This is a manifestation of equilibration in a competitive economic system, or the dynamics of economics. One hundred and fifty years of exodus from the farm has largely been the outgrowth of increasing efficiency in agriculture.

Although there are now fewer small-size (20 to 99 acres) farms than in 1920, there are more by far under 10 acres, and about the same number in the 10- to 19-acre bracket. These smaller farms are primarily a place to live rather than a source of income. The farms in the 100- to 259-acre bracket have also decreased, but not nearly as noticeably as the smaller sized farms. Farms between 260 and 499 acres had changed little in numbers between 1920 and 1945. The farms in the 500- to 999-acre group have increased somewhat, about 16 per cent between 1920 and 1945. The large farms of over 1,000 acres have increased more rapidly in number than any other bracket, with nearly 70 per cent more in 1945 than in 1920.[65]

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[65]Sherman E. Johnson, Changes in American Farming, "Miscellaneous Publication No. 707." USDA (Washington, D. C.: Bureau of Agricultural Economics, 1949), p. 53. The trends in farm size changes have continued since Johnson made his study and evidence points to their further continuation.

The ever-commitment of resources to agricultural pursuits has tended to correct itself throughout the dynamic growth of the American economy. Various states have from time to time attempted to protect special interest groups, but on the whole and in the long run analysis, economic forces in the United States have tended to allocate resources to their most productive uses. It is possible, of course, that the protective measures which were introduced in the 1930's may tend to slow down this process of equilibration. On the international scene, agricultural policies that have distorted trade show that one nation alone is unable or unwilling to cope with world-wide problems. Policy has often tended to shelter certain groups from the effects of world market forces.[66] This sheltering of special interest groups may slow the general trend toward a more productive allocation of resources and may thus divert the movement from marginal and sub-marginal farms or from low income import-competing commodities to the production of more efficient export crops.

Agriculture still engages about twice as many farmers as needed. This surplus must be kept moving into other lines of production or the farmers will simply be dividing the farm returns among more producers. Some students of the subject urge that, rather than flat payments to farmers or payments proportional to sales, an essential part of any price or income policy should be a program of general improvement in education, both general and technical, to prepare farm children to move out of agriculture and compete on equal terms with

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[66]Robert B. Schwenger, "World Agricultural Policies and the Expansion of Trade," Journal of Farm Economics, XXVII (February 1945), 86-87.

non-rural workers.[67]

Farm Income Levels and Foreign Trade

Mention has already been made of the marked differences in the incomes of individual farmers. The greatly increased demands for farm products during the war years, which made farm incomes very profitable for millions, was unable to provide more than a marginal, and in some cases, sub-marginal existence for millions of other farmers.[68]

To the extent that the efficiency of factor use manifests itself in factor returns, agricultural exports are more efficiently produced than are import-competing crops. Unweighted average hourly earnings in export agricultural crop production was $1.25 in 1947 as compared with hourly returns of $1.23 for import-competing crops. Weighted by man-hours, leading export commodities returned $1.269 as against $.999 for import-competing crops in 1947. The spread was greater in 1952 when the weighted per man-hour returns were $1.671 for export agricultural crops as against $1.018 for producers of import-competing commodities. These figures were determined by weighting the returns according to the importance of the different commodities in the make-up of this country's exports and its imports of commodities which compete with domestically-produced commodities. The greater the importance of exports the higher the man-hour returns, and the greater

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[67]Geoffrey Shepherd, "A Rational System of Agricultural Price and Income Controls," Readings on Agricultural Policy (Philadelphia: The Blakiston Company, 1949), pp. 162-163.

[68]Hickman, op. cit., p. 36.

the amount of competition from imports, the lower the returns.[69]

In view of the contrast between farm income levels and the greater return to export commodities than to import-competing commodities, it would seem unwise to attempt to exclude cheaper imports. An easing of import restrictions, which could make dollar exchange available to other nations, would allow a more rapid shift of resources to agricultural export, as well as to industrial export goods production. This would lead to even higher returns to American productive factors and give foreign nations much less need for grants and "loans" with which to pay for the American goods they desire.

The practice of supporting import-competing commodities which make high demands on scarce factors, thus protecting them against imports, perpetuates inefficiency. In addition, by excluding foreign imports, less foreign demand will be manifested for efficiently produced exports. These effects are obvious, but another less commonly recognized effect is equally as wasteful of scarce productive factors. Supporting a crop at such a level that production is stimulated at above the world price may prevent United States production from entering the world market. This result prevails in connection with the production of wheat and cotton and possibly other commodities. The effect of a supported price which stimulates production often leads to sales to the government of a large portion of a crop. Farms which could have sold their crop profitably at a lower price will see economic rent and expectations of continued rent force their land

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[69]Irving B. Kravis, "Wages and Foreign Trade," Review of Economics and Statistics, XXXVIII (February 1956), 27-30.

values up to such a height that they can no longer sell in the lower priced world market.[70]

With all farms producing for a nationally supported price, difficulty arises when world prices fluctuate. When the world price goes up, all is well; domestic producers sell on the world market at above support price. However, when the world price drops below support levels, producers sell to the government.

The United States has an advantage in world trade where machinery improves the productivity of labor to a high enough degree. The problem in trade policy is to reconcile the national interest with the interest of particular groups. When the production of crops is reduced because of the loss of this foreign market, the unused factors will begin competing with factors producing other commodities and thus aid in driving incomes down in these fields.

The bulk of the population of China, India, Mexico, and many other nations are dependent upon agricultural production for a meager existence. These nations all have low productivity, much manpower used and little mechanization. This would seem to be the goal that protection, for crops not adaptable to mechanization, is aiming for in the United States. Only by making the utmost use of technological and scientific improvements as swiftly as possible can American agriculture hope to remain competitive in the world market. An agriculture

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[70]Richard T. Ely, and George S. Wehrwein, Land Economics (New York: The MacMillan Company, 1940) pp. 121-133. Ely and Wehrwein point out that land receives its value from capitalization of the returns from the land. For this reason when land is sold at a high price because price supports have permitted high economic rent to be capitalized, the new owner is no longer able to sell at less than the level of the support price.

which contributes its part to a dynamically growing American economy must continue to adopt new technology as fast as do industry, marketing, and ancillary pursuits. Otherwise, it will retard the nation's economic progress.

Capital-Intensive Crops[71]

Agriculture which is efficient and which returns a high income level to its producers aids in maintaining a high national income and a prosperous nation. This is also true of any other basic productive group in the economy. However, a nation cannot be prosperous if agriculture is so inefficient that it uses all the productive factors of the economy to feed and clothe the populace. If a nation is not efficient in agricultural production, it must remain at a relatively low level of living or import foods and fibers to free workers for other pursuits.

For at least thirty years the frontiers of the United States have been closed. No longer is it possible to add to extensive production in order to increase agricultural output. Only by improvements in a technology which decreases relative inputs to outputs will American agriculture be capable of increasing productivity at the same rate as increasing efficiency in industrial production. Only if something like a balanced ratio is maintained as between the efficiency of agriculture and the efficiency of industry, will agriculture contribute its due proportion to the American standard of living.

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[71]By the term "capital-intensive crops" is meant commodities that lend themselves to production with maximum use of machinery, fertilizers, improved seed stock, and with relatively very little manpower necessary in their cultivation.

Some avenues toward an improved agriculture are of course more promising than others. Land and climatic conditions are relatively unchangeable, except for such secondary influences as swamp drainage, added humus, fertilization, and irrigation. The greatest potential for increased productivity of agriculture is attainable through the substitution of capital for labor. This is true because, as compared with most other nations, the United States has excessive capital and a shortage of labor. If comparative advantages are to be obtained, a nation can produce more cheaply those products which make the greatest use of the abundant factors and the least use of the scarce factors.

The commodities which lend themselves well to a substitution of capital for labor and those which are unsuitable for production elsewhere because of climatic or other natural conditions are the ones which should be exported. The crops which are unable to become "capital intensive" will become more incapable of entering the export market as industry continues to become more efficient. If the ratio of manpower to capital usage fails to keep abreast of the industrial revolution which is now in process, then the cost competition for manpower in the industrial processes will tend to cause agricultural prices to become so high that agricultural products will not be able to enter the export market. In fact, with the exceptions of bulky low-value commodities and perishable goods, the trading partners of the United States will tend to export more and more agricultural commodities to the United States unless the "agricultural revolution" keeps apace with the trend toward automation in industry.

The technology of agriculture tends in general to advance as rapidly as other sectors of the economy. About 80 per cent of farm extension effort is directed toward technological improvements in production. Some observers contend that it is necessary that more than 20 per cent of the total effort be applied to farm planning and research into the economics of production. Because of projected national growth, the United States will need all the agricultural productivity possible in another generation. Technological development, so it is maintained, is at the point where all that is needed in order to have incomes in most of the low income areas of the United States is to practice the new technologies on farms of sufficient acreage.[72]

Hand-Intensive Crops[73]

There are certain commodities which will probably never be significant in the international trade between distant areas. In point of production method, these may be either hand-intensive or capital-intensive, and generally they do not significantly influence either import or export patterns. One of the reasons for this is the low value and large bulk quality of some commodities, which tends to increase transportation costs above the profitability point of shipping. Another factor is the perishability of some commodities. Fresh meat shipments, for example, were impossible for hundreds of years other than by actually shipping the live animal.

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[72]John D. Black, "Agriculture in the Nation's Economy," The American Economic Review, XLVI (March 1956), 40-41.

[73]By "hand-intensive crops" is meant those crops which, because of their nature, require in their production a great deal of hand labor which cannot be done by machine processes.

The commodities in the United States which tend to be hand-intensive and which can be produced elsewhere and shipped to the United States will be subjected to more and more import competition. Yet again, there will be a continual increase in the malallocation of productive factors if special interest groups remain strong enough to compel the entire population to pay higher and higher prices as the production of these commodities becomes more and more inefficient relative to other segments of the economy. The production of such commodities will continue to become more inefficient unless capital is able to replace labor as fast as it does in other industries.

Some of the commodities which require a large amount of hand labor for which machines cannot as yet be substituted and which thus could be classed as hand-intensive are: tobacco, certain fresh fruits and vegetables, cotton under some conditions, hops, wool, poultry, and beet sugar. If the advantages of highly productive land (soil, climate, rainfall, and location) are not great enough to offset the use of the large number of farm workers that cannot be replaced by capital, production is to a large extent dependent upon protection. Any commodity which consistently depends upon support for its existence is a drag on the rest of the economy. Therefore in the dynamic economy of the United States, if there is to be a continued maximum rate in increasing the standard of living, hand-intensive crops needing protection should be losing productive factors to production of capital-intensive goods and commodities.

It is true that land values are high on much land that produces hand-intensive, protected commodities. If this land were diverted to the production of other products it would lose much of its value.

Such a shift would also result in a sizable loss to the owner at the time of changing from, say, sugar cane to dairy pasturage in Louisiana. But how did the land obtain its value? It was mainly through the capitalization of the income of a crop, opportunity cost of other crops, or alternative non-agricultural uses. In the example of sugar land values, import quotas instigated by lobby campaigns of vested interests gave the land its value in the first place. The same is true of any other protected crop. In sum, the protection afforded to an inefficient labor utilizing crop will keep the land values high. If the protection were to cease, the land would be diverted to the commodity which had the next highest opportunity cost, and without protection it would be a crop better suited to the factor proportions that are available.

In preparation for an examination of the effects that restrictive trade regulation have on various hand-intensive and capital-intensive commodities, this chapter was designed to indicate some of the effects on agriculture in general. The conditions under which factor employment may not be maximized and inefficient production may be perpetuated have been noted. Likewise, the ways in which a domestic program may interfere with import and export practice, and the effects of trade regulation on ancillaries of primary producers have been noted. In addition, an examination was made of the regulatory tools and such other matters as the decline in the importance of agricultural exports, the size of farms and the historical movement from the farm to urban locations.

The remaining chapters will include an examination of the effect supports and regulations have on factor usage in production of export

commodities and import-competing commodities. These observations will be made while examining crops classified as capital-intensive and hand-intensive.

CHAPTER IV

CAPITAL-INTENSIVE CROPS AND RESTRICTIONS

The term "restrictions" as used here means regulations dealing with either domestic or foreign trade, which may adversely affect quantities of imports of exports. Capital-intensive crops will be dealt with mainly in this chapter and hand-intensive crops in Chapter V. Some of the crops covered are both hand-intensive and capital-intensive and will therefore be discussed in both chapters.

In order to determine the effect that fluctuations of international movements of capital-intensive commodities have on the nation's resources, leading export industries will be examined. The growth of efficiency of resource use in various crops, as well as the correlation between export levels and trade restrictions will be noted.

Leading Export Industries

The work done by Professor Kravis in his article on "Wages and Foreign Trade" and also his statement in the Congressional hearings in September 1956 will be used as a basis for the selection of leading export- and import-competing agricultural industries discussed in the chapter. Others will be used as the occasion arises. Table V in this chapter is Table 8 in the article on "Wages and Foreign Trade;" it is known as Table 7 in the Congressional hearings statement.

While accepting the work done by Kravis as a basis to work from, it must be realized that hourly returns were obtained from the division of man-hours of labor into the net income realized by the industry. This, of course, would incorporate any high or low prices

TABLE V

AGRICULTURAL INDUSTRIES IMPORTANT IN FOREIGN TRADE; 1947 HOURLY EARNINGS; 1947 AND 1952 EXPORTS AND IMPORTS

1-O	Industry	Estimated Returns per Hour[1]	Exports of leading Export Industries[2]		Imports of leading Import-competing Industries[3]	
			1947	1952	1947	1952
	Exports and Imports in Millions of Dollars					
4	Livestock & Products[4]	$ 0.58			220	314
5	Food Grains	3.17	441	855	2	72
6	Feed Grains and Hay	.57	215	339	4	85
7	Cotton	.80	1,365	864	44	35
8	Tobacco	.82	100	95	(5)	61
9	Oil Bearing Crops	1.65	41	81	139	56
10-11	Vegetables & Fruits	1.10	155	139	102	111
12	Tree Nuts	.91	(6)	(6)	32	38
Total, above industries			2,316	2,373	543	772

[1]Estimated hourly returns were obtained by dividing man-hours of labor used in farm work into realized net income of farm operators plus expenditures for hired labor.

[2]All industries with exports of $50 million or more either in 1947 or 1952.

[3]All industries with competitive imports of $30 million or more (foreign value) either in 1947 or 1952.

[4]Excludes meat and dairy animals and their products.

[5]Negligible.

[6]Exports below $50 million; industry therefore not included as leading exporter.

SOURCES: Kravis, "Wages and Foreign Trade," p. 27.
_____, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS

AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Washington, D. C., (1956).[1]

into man-hour returns. Thus, any prices that may have been unduly depressed or supported unrealistically at the time this work was accomplished, would inject this same note of artificiality into the findings.

Man-hour Returns of Leading Export Crops

The man-hour estimates and the man-hours actually spent in the production of commodities, at best, give only a rough approximation of average efficiency of labor use for a given commodity. Average figures are shown in estimated returns per hour in Kravis' table. This table is based on total production figures and total manpower figures and is therefore not representative of any one area. Cotton may return much more per man-hour in one area than in another. This is true for all of the commodities entering foreign trade. Some producers are sub-marginal, some marginal, and others may be profitable but will tend to become high cost producers as land values appreciate.

Kravis finds that the export commodities when weighted show an average hourly return of $1.269 in 1947 and $1.671 in 1952. His figures for import-competing average hourly returns are much lower, being only $.999 in 1947 and $1.018 in 1952.[2] This is somewhat misleading, however, because the efficient as well as the inefficient producers are taken into account. There is no way of determining which cotton is produced efficiently and which inefficiently. The same is true for tobacco, wheat, oil,

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[1]Although The Bureau of Labor Statistics made an extensive study in 1947 and again in 1952 concerning industrial efficiency, no such study was made for agricultural industries until Kravis, using raw data from the U.S. D.A., completed the above work for leading export and import commodities.

[2]Kravis, "Wages and Foreign Trade," Taboe 9, p. 30.

vegetables, fruits or nuts. What can be determined, nevertheless, is how rapidly an industry substitutes capital for manpower, if the sub stitution is possible. When the substitution is rapid and the farms which have not been able to make the substitution tend to have a relatively low level of living as compared with those which have shifted, then it is evident that capital returns are higher and capital-intensive production more efficient. If this were not true there would be no effective inclination to substitute capital for labor.

Industries unable to substitute capital for labor in order to remain efficient relative to other industries can expect to be eliminated from production in a dynamic industrializing economy. Capital will normally be substituted for labor when it is cheaper in the long run to make the substitution. With the increasing demand for labor from northern industrial centers, with industries shifting to the South and West to follow the markets, as a result of increasing labor mobility, and with minimum wage laws, labor is becoming increasingly more costly throughout the nation.

Production of wheat, a major export commodity, very early lent itself to methods designed to save relatively scarce manpower. By 1847 the reaper was being used commercially. Manpower was a scare factor in the West where wheat was adaptable to the extensive use of rich prairie lands. With few men, horses and machines were used. Large machines and large units of power in the production of wheat was established long before the internal combustion engine was adapted to field work. As soon as the internal combustion engined tractor became practical it was drafted into use with other improvements in mass production following. beginning around 1920 tractors soon made horsepower obsolete in the job of

plowing large wheat ranches. As the tractor improved, the number of horses and mules declined.[3] The combine, using gasoline power, became a smaller, more manageable tool to the farmer, and manpower needs were further reduced by the one-man combine, now a standard tool of many grain producers. The use of machines thus led to the high man-hour returns which Kravis revealed in his research into productivity. The early use of machines prior to support programs may have eliminated many sub-marginal wheat producers and dictated capital intensification for all producers.

Mechanization in the production of corn was slower than in the production of wheat because of problems not encountered in wheat and small grains. High-yielding hybrid corn and wartime shortages combined to give the requisite impetus to greater mechanization. By 1946, 70 per cent of the corn production was harvested mechanically in the corn belt. This and the use of the corn planter, with mechanical disking and husking, have almost completely mechanized corn production.[4]

The cattle industry, dependent upon forage, received the boost toward capital substitution for labor as early as 1890 when mowing machines came into use. The windrow pickup hay baler of 1932, the silage of green fodder in trench silos, windrow ensilage cutters, together with the truck, hay fork, and tractor, considerably reduced the manpower re-

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[3] A. P. Brodell, Machine and Hand Methods in Crop Production (Washington, D. C.: Bureau of Agricultural Economics and Agricultural Marketing Service, 1940) pp. 1-3.

[4] A. P. Brodell and J. A. Ewing, Use of Tractor Power, Animal Power and Hand Methods in Crop Production (Washington, D. C.: Bureau of Agricultural Economics, FM-69 Mimeographed, July 1948), pp. 12, 21.

quirements of the cattle industry.[5]

The work of Louis J. Ducoff for the Department of Agriculture shows variations of productivity in 1939 from total production value at $82 per man equivalent on the smallest value category of farms to $2,850 on the largest. In other words, productivity on the largest farms ranged to as high as thirty-five times that of the smallest farms. The greater productivity on the larger farms was associated with better resources and larger capital outlays per worker. Employment of hired labor on the larger, better equipped farms produced on the average a greater output per hired worker than the average worker's output on farms manned entirely by family labor.[6]

The implication of Ducoff's findings is that the larger the producing unit, the more efficient the operation. This may not necessarily be true, especially in periods of falling prices. Yet, the trend toward mechanization has been evident for some time, as has the knowledge that the large mechanized farm is generally more efficient. The more efficient the production possibilities, the greater should be the chance of a commodity retaining its place in the make-up of exports. That is to say, if efficiency allows the cost relationship to decrease faster for one commodity, that commodity should become a better buy for foreigners. With wheat this is probably true, yet wheat has been losing foreign markets faster than tobacco, which is hand-intensive and usually produced on very small tracts.

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[5]James H. Street, The New Revolution in the Cotton Economy (Chapel Hill, The University of North Carolina Press, 1957), pp. 98-99.

[6]Louis J. Ducoff, Wages of Agricultural Workers in the United States, Technical Bulletin No. 895, USDA (Washington, D. C., 1945), pp. 11-12.

Table VI shows the average hours of labor used per unit of production for wheat and tobacco and several other major export commodities. The table shows that the most rapid increase in productivity of the

TABLE VI

AVERAGE HOURS OF LABOR USED PER UNIT OF PRODUCTION ON SELECTED EXPORT COMMODITIES

Crop		1910-14	1925-29	1935-39	1940-44	1945-48
Wheat	100 bu	106	74	67	43	34
Rice	100 bu	154	87	64	64	56
Tobacco	100 lbs	44	48	47	44	43
Soybeans	100 bu		128	64	58	52
Cotton	Bale	277	268	210	190	182

Hours of labor are computed for the acreage harvested.

SOURCE: Johnson, Changes in American Farming, USDA, Table 11, p. 70.[7]

export commodities listed for the period 1910-1948 was in the production of rice and wheat, both major export commodities. Soybean production, which did not begin on a large scale until after World War I, was only half as efficient in the period 1925-1929 as in 1935-1939. However, it has shown continuing increases in productivity. Cotton production, on the other hand, was only slightly more productive in

[7]See also The Economic Almanac 1958, (New York: Thomas Y. Crowell Co. 1958), p. 58. Although Johnson's work was the last comprehensive work on hours of labor used, the yearly figures of the Agricultural Research Service, USDA, as compiled in the Economic Almanac in table form, show that the decreasing use of manpower is continuing. The trends shown in Johnson's work continue with the exception of tobacco which in 1955 had a considerably higher per man-hour output.

1925-1929 than it was in 1910-1914, but has since become more efficient. Mechanical improvements now make cotton production almost as adaptable to machine production as wheat. The production of tobacco, one crop which has retained its export market, was no more efficient in 1948 than it was in 1910.

The efficiency of wheat production varies widely, with costs much higher in some areas than in others. Wheat could be produced for 70 to 80 cents a bushel in some areas of Kansas in 1953 and 1954, while costs in Illinois were between $1.50 and $1.65 a bushel. Yet the price support of 90 per cent of parity paid by the government was at the rate of $2.24 a bushel. At the same time, the government was selling the wheat it purchased to foreign countries for $1.65 a bushel under the terms of the International Wheat Agreement which was first negotiated in 1949.[8]

The Wheat Agreement was an attempt on the part of several wheat-exporting nations and forty-one importing nations to assure a quota from each exporter between a minimum and maximum set of prices. The extension of the agreement in 1953 for three more years established a quota for the United States of 209 million bushels at a minimum price of $1.80 a bushel.[9] The support level will, of course, be the market price for wheat in the United States as long as supply outstrips demand,

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[8]Walter L. Randolph, Vice President American Farm Bureau Federation, A Statement in the hearings before the Committee on Agriculture and Forestry, DISPOSAL OF AGRICULTURAL SURPLUSES - COTTON, United States Senate, 84th Congress, Washington, D. C., (1955), pp. 149-151.

[9]Brainard, op. cit., pp. 483-485. See also Stephen Enke, and Virgil Salera, International Economics, Third Edition (New York: Prentice-Hall, Inc., 1957) pp. 443-453.

while the export price will be the wheat agreement minimum price. The equitable price sought by the producing countries of the wheat agreement may be based upon wrong assumptions. True, in the world-wide depression of the 1930's, when wheat prices fell all prices fell. There was little or no alternative use for resources going into wheat production. However, times were different following World War II, and an attempt to retain stable marketing quotas and prices at the so-called equitable level may have caused a slow-up of the readjustment from war stimulated demand to normal demand patterns. The equitable level is considered to be that level which produces returns equal to returns from alternative employment.[10]

The wheat agreement and other plans for stimulating exports of commodities with high output per man have the support of the Grange. Lloyd C. Halverson a Grange economist calls attention to the point that the high standard of American living is due to that high output, and that our policy makers must think in terms of full employment of the American people in these industries which have the highest output per man and therefore the greatest advantage in the world market. This spokesman also urges that the producers of export crops should not be required to give up their normal share of the world market merely because they have the benefit of a domestic program which raises the price above the competitive level and artificially stimulates production abroad. Instead, a freer hand should be given to many of our producers who can produce at

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[10]Enke, and Salera, International Economics, pp. 452-453.

competitive world prices and still have some addition to income.[11]

The impact of war demands and high prices for wheat under an admittedly stimulating support level has had an effect on the pricing of wheat land. Farmers buying land and equipment to expand production at a given price level need to continue receiving the same level of income in order to obtain a satisfactory return on their investment. When a wartime demand returns to normal there is apt to be a call for continued aid in maintaining exports at the wartime level. Without some kind of aid many wheat farmers would face disaster. That they should receive some help in readjusting is not questioned. What is questionable, however, is whether a program should be used which will forever continue the disequilibrium.

The situation with respect to rice is somewhat different from that of wheat. Rice is produced mainly in Louisiana, Texas, Arkansas, and California. Production in Louisiana and Texas is least efficient in terms of per-acre output, but alternative uses of land in these states are few (mainly grazing), so that land is cheaper than in Arkansas and California.[12]

Louisiana rice producers could show earnings of only 28 cents for each hour of labor used in the raising of rice in 1945. The rental arrangement for land is 20 per cent of the crop, which amounted to $13.73 per acre in 1945.[13] It appears that land use is the productive

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[11]Lloyd C. Halverson, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Washington, D. C., (1956), pp. 1562-1563.

[12]J. Norman Efferson, The Production and Marketing of Rice (New Orleans: The Rice Journal, 1952), p. 455.

[13]Ibid., p. 469.

factor which causes rice producers to show less than a fair return on their operation. For example, by capitalizing the returns for rent at between 5 per cent and 10 per cent the land would have been valued at between $137 and $274 an acre in 1945. This land had only grazing as an alternative. The rent pattern, then, has capitalized the land values so high that even efficient use of capital and labor results in a loss. The farmers who are sharecropping the land may not be making a fair income, but a return of $13.73 an acre on land with few alternative uses appears to be a windfall for owners. Any export subsidy program under an institutional rental program of the sort described by Efferson, where a large portion of output is by sharecroppers paying 20 per cent of the crop in the form of rent, will continue to inflate land values. This would seem to encourage the perpetuation of the status of sharecroppers as landless farmers and make absentee landowners more and more vocal for export subsidies.

Land which sold for $6 an acre in Arkansas before being planted to rice is now valued at $150 an acre.[14] This same land would be valued at about $9 an acre if it had appreciated at the average rate of change for all agricultural land.[15] On the other hand, costs of preparing for rice culture would never have been undertaken without assurance of an income which would justify them.

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[14]"Old-Style Paddy Gone With the Wind," The New York Times, Tuesday, July 9, 1957, pp. 39, 44. It should be noted that such a source as this may be more journalistic than factual in as much as costs of preparation for paddy culture are not considered.

[15]Average values of farm land per acre from Statistical Abstract of the United States, 1940, 1955, passim.

Cotton, like wheat, is a commodity which can be produced by many operators at costs competitive with world prices. The support program helps the inefficient cotton producer very little but gives windfall gains to low-cost producers. The price subsidy adds significant amounts to the incomes of producers whose costs are substantially below market prices. The high cost producer however, is not aided to any great extent. In fact, farms producing cotton declined by 20 per cent since the advent of controls.[16]

A support program not only fails to help the inefficient producer significantly, but it also subsidizes production in areas abroad that cannot match the efficiency of many of our efficient producers. And once American exports have been lost to foreign producers, a two-price system may lead to counter subsidies for exports by these foreign producers. Subsidies will not indicate which country is the most efficient producer. Instead, it will lead to objections by foreign producers who claim such actions violate the rules of the Food and Agricultural Organization, or the objectives of Gatt. Moreover, it is very probable that under a two-price system tax resources will need to be depended upon in order to cover the difference between the two prices: the support price and the dumping price.

The cotton revolution which has seen the substitution of machines for men and a shift from production on small acreages in the South to large acreages in the West has also witnessed a shift in protectionist sentiments in cotton-producing states. With the shift of textile manu-

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[16] Murry R. Benedict, and Oscar C. Stine, The American Commodity Programs (New York: The Twentieth Century Fund, 1956), p. 45.

facturing to the South, the erstwhile free trade arguments of the cotton-producing states changed to exhortations for protection of the textile industry. The more the economy of southern states becomes dependent on textile income and the more ingrained the idea of government support price purchases of cotton, the stronger will be the feeling for protection.

The cotton support program, in addition to stimulating foreign cotton production, also acts as a stimulant to the rayon industry which has been producing fibers cheaper than cotton since 1943. With greater foreign competition, with more competition from rayon, and with high stimulating price supports there has been a growing need to limit cotton production. The crop control program, with its aim toward a limiting of acreage and the rewarding of efficiency, has encouraged a shift to the cities. This shift was facilitated in large part by a general improvement in economic conditions sufficient to permit the absorption of underemployed farm labor from the cotton areas. The introduction of farm machinery specifically tailored to produce and harvest cotton has resulted in a reduction of costs. The areas which mechanized most rapidly displaced labor and consolidated land ownership. This, in turn, widened the differences in farm income and increased the disadvantage of the smaller farms lacking the necessary funds to expand.[17] The slowness of the south to adjust to mechanical substitutes for labor was partially due to the abundance of cheap labor and the small-size cotton farms. Table VII shows the per cent of mechanization in cotton culture in various areas in 1939 and 1946, with tractor power used in four categories

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[17]Gilbert C. Fite, "Recent Progress in the Mechanization of Cotton Production in the United States," Agricultural History, No. 1, XXIV (January 1950), 26-28.

of operation serving as a sort of multiple index of the extent of mechanization.

TABLE VII

USE OF TRACTOR POWER PREPARATORY TO COTTON HARVEST; PERCENTAGE OF OPERATION DONE BY TRACTOR

State Group	Land Breaking		Harrowing		Planting		Cultivating	
	1939	1946	1939	1946	1939	1946	1939	1946
Southeast	10	38	8	29	2	13	2	11
Midsouth	16	42	13	37	4	16	6	18
Southwest	48	84	40	81	42	78	40	82
Far West	81	94	67	89	64	81	69	87

SOURCE: Bradell, and Ewing.

The mechanization of cotton production, that is, use of the mechanical harvester with tractor preparation, also came first in the Far West. California in 1949 had 13 per cent of its cotton mechanically harvested and 67 per cent in 1955, while the Southeast harvested only 2 per cent in 1955.[18]

With the substitution of machines for men and mules, man-hours per bale have been cut from 155 hours to approximately 132 hours per bale with present equipment. With increased use of mechanical pickers, and when an assured weed control is developed, it is expected that labor re-

[18]United States Agricultural Marketing Service (formerly United States Production and Marketing Administration), Charges for Ginning Cotton, Costs of Selected Services Incident to Marketing, and Related Information (Washington: USDA) Annual Report 1949 and 1955.

quirements will be reduced to 10 or 12 man-hours per bale.[19] With this decreasing use of labor as a result of mechanization, there should be a lowering of relative costs of growing cotton which should lead to a lowering of supports if a ten-year running average with flexible support levels is used to determine support prices. It is argued by some that such cost reductions will be substantial enough so that cotton production can again recapture markers taken by foreign producers and substitutes. This low cost production may be seen at work on many of the more efficient farmsteads that produce under a cost schedule that would prove profitable at world prices.

If those advocating adjustment to the forces of a free market are correct in their thesis that technological advancements will cut costs to a competitive level, there is still the question of how foreign buyers will be able to pay for American cotton.

Oils, fats, and oilseeds have been both imported and exported in large quantities by the United States. Our country has steadily increased its share in the world export market. From a 2 per cent share (1935 to 1939 average) United States exports have increased to 26 per cent in 1954.[20] A part of this increase is a result of the introduction of soybean culture in the United States. Soybeans are easily adapted to American farming techniques, and their production has increased

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[19]From information furnished by The United States Department of Agriculture Neg. 47993-4, Bureau of Agricultural Economics as duplicated by Street, op. cit., p. 170.

[20]Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit.,

rapidly in recent years. The technique of tractor soil preparation and the utilization of mechanical planters, rotary hoes, weeders, and a combine for harvesting have made possible the record development of the soybean industry in the United States.[21] With the use of modern methods the United States has been able to enter the world soybean market, and in a period of about twenty years has become the supplier of around 45 per cent of the world output. The United States and China together produce about 90 per cent of the world total.

The peanut, another of the oil-producing crops, is also adapted to mechanical planting and cultivation. The peanuts are harvested by a tractor pulling a digging plow, after harvesting, the peanuts are allowed to dry for a few hours. After the vines are dry a tractor with a windrow shaker shakes the vines and pods free of soil. In some areas the peanuts are stacked, while in others they are dried in windrows. The latter method is much cheaper and requires less hand labor. Peanuts are mechanically picked from the hay. After harvesting, hogs are allowed to clean the fields, putting on a pound of pork for each 2 1/2 to 3 pounds of peanuts they pick up.[22]

Lard is a by-product of pork production. With the shift away from the domestic use of lard to the use of shortening, lard must be shipped abroad to areas where shortening has not yet become competitive with lard. Through selective breeding, hog raisers now utilize techniques

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[21]Klare S. Markley, Soybeans and Soybean Products (New York: Interscience Publishers, Inc., 1950), I, 28, 34-35, 42, 44.

[22]D. G. Sturkil, and J. T. Williamson, The Peanut, "Cultural Practices," A Symposium, Chapter 5 (Washington, D. C.: The National Association, 1951), pp. 196-208.

which minimize fat production, but much lard is still produced.

The shift in demand from soap to detergents has had some effect on both imports and exports of fats and oils. The exports of inedible fats from the United States are the lowest priced fats of this type available and undoubtedly will maintain a place in world markets unless synthetic detergents become more widely used abroad.[23]

American production of fats and oils varies in degree of mechanization. The estimated returns per hour shown by Kravis place oil bearing crops second in productiveness of United States agricultural export commodities. However, there is a wide variation in efficiency because of location and use of capital and labor. Among the major oils and fats are butter, lard, and the oils derived from cottonseed, peanuts, soybeans, olives, coconuts, palm, tung, whale, and fish.

The United States was a net importer of fats before World War II. Since the war, exports have risen above imports. The value of imports of vegetable oils, fats, and oilseeds in 1954 was $142,213,000 as compared with exports valued at $301,000,000.[24] The increase in exports was a result of the new production of soybeans together with increases in the production of peanuts, lard, and cottonseed oil. Nearly all the major export oils and fats are suited to a high degree of mechanization.

Comparative Wages in Export Crop Production

In dealing with wage levels, as with all other farm comparisons,

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[23]Paul E. Quintus, Head, Fats and Oils Division, Foreign Agricultural Service, USDA, A Statement in the hearings before the Committee on Agriculture and Forestry, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, 84th Congress, Washington, D. C., (1953), p. 798.

[24]Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit., pp. 3, 23.

the data compiled by the United States Department of Agriculture are in terms of averages. Wage rates tend to be higher in the North and West and lowest in the South. In 1943 wages for farm labor in California and the Pacific Coast area were about three and one half times as high as in the East South Central area.[25] Cotton was one of the major crops exported from both areas. In Arizona $2.70 a hundred pounds was paid for picking while in South Carolina the rate was $1.25.[26]

Although Kravis has shown some differences in hourly earnings between import-competing and export commodities, there is a close relationship between wages for comparable jobs in an area regardless of which commodity the workers are producing. The wage rates may tend to remain lower in some pursuits, but labor does have some mobility. If industry moves into a basically agricultural area with a low wage scale, there will be demands for wage increases. This is well illustrated by wages paid for picking cotton. During World War II when industries made increased use of southern areas for producing industrial products, cotton pickers in the plantation areas of Arkansas and Mississippi were paid more than after the war. Cotton prices were higher following the war but war stimulated industrial production had diminished.[27] The competition between agriculture and industry for labor has resulted in a steady migration from some states to others, as well as from farms to the city.

Although wage rates have increased faster in the South than through-

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[25]Ducoff, op. cit., Table 14, p. 32.

[26]Ibid., Table 15, p. 34.

[27]J. Lewis Henderson, "In the Cotton Delta," Survey Graphic. XXXVI, No. 1 (January 1947), p. 51.

out the entire nation, the South still has the lowest wages. Among the cotton-producing states, California and Arizona have had the highest wage scales. The South in 1943, while using nearly half of the hired farm labor, paid wages averaging not much over half the rates paid in the remainder of the country.[28] The nature of the labor force in the South, largely unskilled, may be one of the reasons that wage scales have not advanced as rapidly in the South as in other areas.

Cotton, rice, and tobacco are commodities generally produced in the low-paying area, whereas the small grains are a product, for the most part, of the Midwest and West where wages are generally higher. Similarly in the case of fruit, high-wage California alone produces 45 per cent of the nation's fruit. The location of the production of commodities may be a more important factor in determining wage scales than the fact that the commodity is exported, or is an import-competing one. Thus if a commodity is produced in an area of greater labor shortage, the pressure to substitute capital for labor is likely to be greater than it is in an area where abundant labor at low wages is available.

The rate of pay per hour or per day has less effect on ability of a product to compete with imports or to obtain export markets than does the efficient use of manpower and capital in its production. Wages tend to vary with location and according to the degree of competition for workers. Table VIII shows that the geographic distribution of wage rates is such that agricultural wages in some areas are more than twice as much as in others. Yet the same crop is often produced in both areas. The relative changes in the indexes of wage rates as between areas have

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[28]Ducoff, Wages of Agricultural Labor in the United States, pp. 18, 32-34.

TABLE VIII

INDEX OF WAGE RATES; ANNUAL FARM WAGE RATES; WAGE RATE PER MONTH WITHOUT BOARD FOR 1910 AND 1953 (1910-1914 = 100)

	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain States	Pacific States
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
1910	95	96	96	97	95	100	98	99	99
1915	106	104	104	105	100	96	101	102	102
1920	224	235	225	238	243	230	246	214	228
1925	200	203	171	152	183	158	154	142	173
1930	203	195	156	145	157	141	139	143	174
1935	137	113	92	85	101	91	92	95	113
1940	152	140	126	106	124	107	108	112	136
1941	175	173	161	143	137	119	126	148	167
1942*	233	216	196	185	171	158	175	184	241
1943	282	265	245	247	218	201	234	245	328
1944	314	302	279	290	259	263	285	291	372
1945	344	331	308	326	296	265	324	321	401
1946	367	367	340	342	338	295	344	336	418
1948	415	422	405	400	381	341	395	386	447
1950	440	435	443	454	484	399	455	420	424
1951	496	485	501	504	546	453	507	464	463
1952	524	513	534	536	572	471	538	494	488
1953	542	530	549	546	589	470	533	494	497
1954	543	529	544	538	582	456	527	484	494
1955**	564	538	554	541	592	471	542	501	504
1910	$ 35.90	$ 32.27	$ 31.88	$ 36.28	$ 19.75	$ 20.28	$ 23.83	$ 44.87	$ 47.21
1953	$204.33	$187.87	$180.99	$204.04	$122.16	$ 95.28	$129.57	$224.89	$236.95

*Data for 1910 through 1942 taken from Farm Wage Rates, Farm Employment, and Related Data, Bureau of Agricultural Economics, USDA (Washington, D. C., 1943).

**Date for 1943 through 1955 taken from Tables of Farm Wage Rates, Agricultural Statistics, USDA (Washington, D. C., 1945-1956).

not been very noticeable. The areas that were high paying have remained so, and the areas that were low are still low. The East South Central area appears to have lost some ground as have also the Mountain States and the Pacific States. The South Atlantic area has advanced relative to other areas but still remains second lowest in wage rates.

The increasing demand for labor, while not greatly changing the agricultural wage scale by areas, has, however, narrowed the gap between wages for agricultural and industrial jobs. The wages of all private industries increased by 323 per cent between 1939 and 1956. Manufacturing wages increased by 336 per cent while agricultural wages increased by 427 per cent.[29] In order for farm products to remain at the same ratio in the demand schedule of foreign buyers as manufactured items, it would appear that the substitution of capital for labor in the production of farm crops must be rapid enough to offset the faster increase in farm wages than in manufacturing wages. In other words, the productivity of farm output should be increasing more rapidly than industry, or else the demand for agricultural exports may be expected to decrease relative to industrial exports. The lack of such an increase in agricultural productivity as would be necessary to make United States agricultural goods relatively less attractive to foreign buyers than other industrial goods could be a strong force leading to demands for export subsidies and dumping.

An argument often advanced by agricultural interests in favor of subsidizing exports is the need for protection against cheap foreign labor. Mr. Brinkley, Executive Vice President of the National Council

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[29] The Economic Almanac 1958, p. 291.

of Farmer Cooperatives, maintains that "we have cost burdens on producers in this country that producers in other countries do not have, such as our high wage structure. . ."[30] This is true, but we also have the greatest efficiency in production, which tends to offset high wages. What should probably be pointed out is that whenever the nature of a crop's production precludes mechanization we are incapable of substituting capital for labor in order to increase efficiency of output, and this burdens us with higher relative wage costs than the costs met by foreign producers of the same crop, if they have a greater relative supply of labor. Where this situtaion exists labor should be assisted in moving to an area where it can be productive, rather than rely upon an attempt to protect it against imports made with the use of cheap foreign labor.

Any attempt to protect inefficiently produced domestic crops and dump them abroad at the discretion of the treasury rather than to let them depend on their competitive merits is likely to aggravate the malallocation of manpower. Wages for such wasted effort are more apt to be determined by the going wage scale of the area than by the productivity of such labor. In consequence, the ability of the economy to readjust its productive factors would be hampered, and this is in conflict with the objectives of increased standards of living and efficiency.

Import-Competing Industries

In addition to exports of capital-intensive farm commodities that are efficient enough that many producers can compete in world trade,

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[30] Brinkley, op. cit., p. 389.

there are capital-intensive crops produced in the United States only because they receive protection. Among such crops are sugar and some food grains which are imported and which provide competition for domestic producers.

Machine-Intensive Crops and Competition

Sugar production can be classed both as capital-intensive (as in the case of cane sugar) and hand-intensive (as in the case of beet sugar production). Although a great deal has been accomplished in the elimination of hand labor from beet growing, labor demands are still high. This labor demand is found in an area where there is a labor shortage. Since the introduction of mechanical harvesting methods in the beet fields, the use of 29.5 man-hours per acre has been cut to 5.4. Nevertheless, 28 man-hours per acre are still required for chopping and thinning.[31] During the period of time when labor needs in beet production declined from 57.5 to 33.4 man-hours, there has been an increase in alternative jobs for labor in the beet producing areas, making labor even harder to obtain.

Sugar from cane is produced in Louisiana and Florida in relatively small quantities compared with total demand. After adding the domestic supply of beet sugar to domestic cane sugar and imports from United States territories, there is need for more to satisfy the demand. The Sugar Acts of 1937 and 1948 provided import quotas which allocated specific quantities to certain producing nations. This method was far more effective than a tariff alone, because domestic quotas plus import quotas limit the quantity in such a manner that whatever price is desired

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[31]"Sugar Beet Mechanization," Agricultural Situation, USDA (Washington, D. C., May 1952), pp. 9-10, 16.

may be obtained, because of the inelastic nature of the demand for sugar. Dr. Piquet states that ending the quota on imports would bring United States sugar prices in line with world prices and increase imports substantially, perhaps as much as 100 per cent. Since the quota mentioned above allows the United States producers about half of the domestic market, its abandonment would in effect eliminate domestic production.[32]

The import-competition of food grains is minor in scope compared with exports of such grains, and much of this importation is from Canada, which generally is as efficient in grain production techniques as is the United States. In addition, the Canadian economy is more closely tied to our economy than it is to the British Commonwealth in which Canada maintains a dominion status. Imports of wheat from Canada into the United States meet quota restrictions, but that country exports to us such other grains as barley, oats, and rye, selling them for less than the United States support price. Only the tariff rates on these grains keep the imports as low as they are.[33] The higher price on wheat has discouraged production of rye in the United States since World War II, and Canada has increased her sales because of this void.[34] This prompt gap-filling process is typical of what transpires as the result of closely tied economies.

Inefficiency in Capital-Intensive Production

The production of a given commodity on land unsuited for production of that commodity on a competitive basis with imports, would appear to

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[32]Howard S. Piquet, Aid, Trade and the Tariff (New York: Thomas Y. Crowell, 1953), pp. 63, 196-198.

[33]Ibid., pp. 228, 233-235.

[34]Ibid., p. 233.

be an uneconomic use of resources. Nevertheless, import quotas, tariffs, and price supports, may permit production at a price above the world price. The domestic sugar cane industry depends on protection as capital use has been unable to fully offset climatic disadvantages.

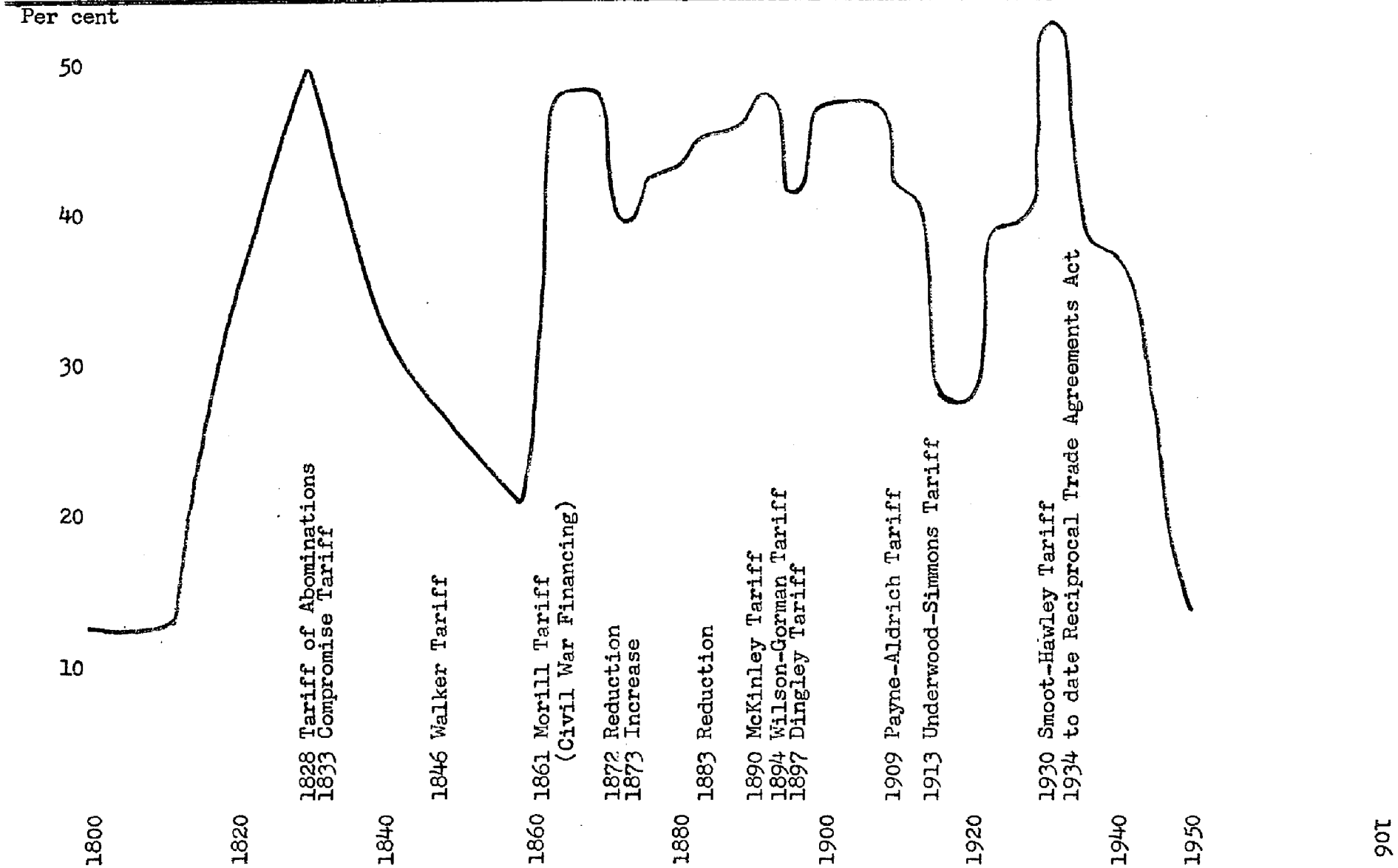
The importation of grain, one of the most efficiently produced of American agricultural exports, may appear to contradict the law of comparative advantage. In such an instance one might be inclined to agree that import restrictions are justifiable. But does an industry which on the whole is efficient necessarily have all efficient producers? Will export subsidies and import restrictions maximize resource utilization? If some imports can compete with marginal producers, the law of comparative advantage would indicate that these imports should come in and force domestic producers to be more efficient in the use of resources. That is, marginal producers should not be protected.

Exports and Restrictions on Trade

In Chapter III, for introductory purposes, the major legislation on imports was briefly mentioned. It seems appropriate at this point to determine what effect this legislation and other trade regulations have had on the exportation of agricultural commodities. Such is the task of this section. Following a discussion of the historic pattern of agricultural exports, the effects of trade restrictions will be differentiated according to their application to capital-intensive as opposed to hand-intensive crops. The history of American Tariffs is summarized in Figure I which lists the major acts and shows the levels of tax as a percentage of dutiable imports. This figure will also be used as a basis for comparing quantities of export commodities with tariff rate levels.

FIGURE I

TARIFF AS PERCENTAGE VALUE OF DUTIABLE IMPORTS



Sources: 1800 to 1865 Wright Economic History of The United States, 1865 to 1945 Humphrey, American Imports, 1945 to 1950 Statistical Abstract of the United States.

This will be done to show the effects of import restrictions on exports of various commodities which require differing proportions of the basic factors of production.

Historic Pattern of Agricultural Exports

The effects of tariff and other trade regulation on the various individual commodities are worth examining in order to ascertain which of the productive factors is most affected by restrictions on trade. Wheat, rice, cotton, oils, and tobacco will now be considered for this purpose.

Wheat, the leading export among the food grains, has long been dependent upon an export market for a very considerable percentage of its total production. From the Civil War until World War I, exports of wheat were generally between 12 per cent and 36 per cent of production. The average percentage of production exported between these wars was 24.9 per cent. Exports increased to 43 per cent in 1920, then steadily fell off to less than 1 per cent during the depression. World War II increased exports to 12 per cent of total output. It was not until 1945, after rehabilitation of the war-torn countires had begun, that exports again amounted to a large per cent of output. The percentages ranged from 34 per cent to 38 per cent from 1945 to 1949, when they fell to 27 per cent. The Korean conflict again revived exports to 35 per cent in 1950 and 48 per cent in 1951. Details are shown in Table IX. Since 1951 exports of wheat have returned to normal, if the average for the 1868-1917 period can be considered normal. If the period 1922 to 1939 is considered normal, today's exports are about three times as large as would be expected. Total production expanded from around 250,000,000 bushels a year in the 1870's to around 800,000,000 bushels in the years after World War I. Since 1944, production has been around a billion

TABLE IX

EXPORTS

	Wheat[1]		Rice[1]			Cotton[1]			Tobacco[1] Unmanufactured
	Exports 1,000 bushels	Exports as percent of production	Exports 1,000 bags	Imports 1,000 bags	Exports as percent of production	Exports 1,000 bales[2]	Exports as percent of production	Exports 1,000 pounds	Exports as percent of production
1866	12,647	6.4				1,324	51.2		
1870	52,547	20.5				2,894	66.4		
1880	188,308	37.5				4,409	66.6		
1890	109,017	24.3				5,859	67.7		
1900	220,653	36.8				6,800	67.1		
1910	70,119	11.4	487	3,382	4	8,027	69.1	399,030	34.9
1920	369,538	43.8	7,142	1,568	31	5,973	44.5	563,958	37.4
1930	111,996	12.6	4,552	575	23	7,133	51.2	633,531	38.4
1935	4,415	.7	1,369	947	8	6,267	58.9	473,187	36.3
1940	33,848	4.2	5,651	334	23	1,174	9.3	189,075	12.9
1945	390,588	34.4	11,469	127	37	3,678	40.8	595,523	29.9
1950	366,145	35.9	13,167	787	34	4,280	42.7	523,605	25.8
1954	274,289	27.8	14,385	64	22	3,585	26.2	515,195	23.0
1955[3]	260,000	27.8							
1956[3]	451,000	45.2							

[1] Yearbook of Agriculture 1935 and Foreign Agricultural Trade Statistical Yearbook 1956.

[2] Bales 500 pounds each.

[3] The Economic Almanac 1958, p. 45.

bushels a year.[35]

Rice, although historically unimportant in foreign trade in the western hemisphere, is a small grain that has become increasingly important in the export pattern of the United States since World War II. Before World War II, North America produced only about 1 per cent of the rice entering world trade. After World War II, Asia, a pre-war export area, had become an importer. The United States, which had become a net exporter in 1919 in the period after World War I, began to expand output tremendously after World War II. By 1948 exports had tripled those of 1940, and when Korea became dependent on United States imports, exports were five times that of 1940.[36] The stimulation of the rice exports of the United States, over the years, appears to have occurred after wars as a result of the United States being committed to aid Allies rather than from any ability to compete economically in the long run with other rice-producing areas. Cuba, a heavy user of rice, depended upon United States production when World War II cut off her sources of supply. Korea and Japan both became heavy importers of rice from the United States when China ceased to supply Japan and the civil war curtailed Korean production. In 1954 Korea discontinued imports of rice and again became self-sufficient. Whether or not the high degree of mechanization has made American rice production efficient enough to compete in world markets cannot yet be answered as the bulk of our exports have been under government programs.

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[35]The percentages of domestic production figures are from the Yearbook of Agriculture 1935, Statistics of Grains, USDA (Washington, D. C.: United States Government Printing Office, 1935), Table 1, p. 349; Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit., Table 48, p. 35; and The Economic Almanac 1958, op. cit., p. 46.

[36]Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit., Table 56, p. 45, and Efferson, The Production and Marketing of Rice, pp. 39-46; also see Table 4, p. 111.

The United States has been a major exporter of cotton ever since the introduction of the cotton gin permitted the economical separation of seeds from the fiber. As soon as the Civil War ended, the South again depended upon exports for disposal of the largest part of its cotton crop. As shown in Table IX, cotton exports increased steadily from 1866 until 1898. From 1899 until 1911 exports were about the same, 1911 was a banner year with 11 million bales exported. After 1911 cotton exports gradually decreased until 1917, when just over 4 million bales were exported. Between World War I and World War II exports generally varied between 3 and 9 million bales a year. Representative of the post-war years is the period 1948-1951, during which exports were less than 4 million bales per year.[37] This post-war period of relatively small exports was when most of mechanization of cotton production took place. It was also the period of high price support levels.

Vegetable oils also appear to have been a decreasing export commodity from 1910 until 1934. Lard, on the other hand, had increasing demands in foreign markets from 1910 until 1923-1924, followed by a steadily declining market until after World War II.[38] Since World War II oils and fats have occupied an increasingly important place in the export pattern of American agricultural commodities, as is shown in Table X. The development of mechanized soybean culture in the United States and the use of detergents probably accounted for some of the recent increase in exports.

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[37] Foreign Agricultural Trade, Statistical Handbook, op. cit., Table 231, p. 199, and Yearbook of Agriculture 1935, op. cit., Table 113, pp. 425-426. Table 98, p. 146 shows cotton exports and exports as a percentage of production for selected years.

[38] Yearbook of Agriculture 1935, op. cit., Table 447, p. 636, and Table 452, p. 661.

TABLE X

FATS, OILSEEDS, AND OILS;
UNITED STATES EXPORTS, 1,000 TONS

Commodity	Averages 1935-36	1945-49	1950	1951	1952	1953	1954
Edible Vegetable Oils	41	174	352	454	293	287	638
Industrial Oils	1	15	47	46	28	46	317
Animal Fats	97	312	520	629	709	842	854
Marine Oils	1	8	38	25	23	54	71
Total United States	140	509	957	1,154	1,053	1,229	1,880
Per Cent of World Total	2	13	15	18	18	19	26

SOURCE: Foreign Agricultural Trade, Statistical Handbook, USDA (Washington, D. C., 1956), Table 219, p. 179.

Exports of tobacco, the major export crop still lacking a high degree of mechanization, have consistently been smaller percentagewise since the depression of the 1930's than before; but since 1945 those exports have been of about the same absolute size as before the depression. Domestic use, however, has nearly doubled since the depression, notwithstanding the recent cancer scare.

Correlation of Exports with Restrictions on Imports

Perry has demonstrated in his work the effects of tariffs on exports of agricultural products. The volume of exports grew at a lesser rate or actually declined every time protective tariffs were in force.

Perry shows clearly the detrimental effects of import tariffs on agricultural exports, and traces this relationship from the beginning

of the nation until 1908.[39] Since the publication of his book other, even more effective measures have been devised for limiting imports. These were mentioned in Chapter III. Mainly, they include import quotas, import licensing, exchange controls, and price controls.

According to Johnson much of the recent restrictive legislation may be attributed to attempts to protect agriculture.

> "Over the last fifteen years various sections of and amendments to agricultural legislation have contained provisions for the control of and use of export subsidies or dumping, import quotas and import fees, and and compensating import and processing taxes have been added as a part of the Internal Revenue Code to provide additional protection for certain agricultural products, principally fats and oils. . . .Import quotas have been applied in the case of cotton, wheat, and sugar."[40]

Using the level of tariffs and plotting the percentage level of tariffs to value of exports as a base, it is interesting to note the contrast in these fluctuations when compared with fluctuations of exports of various commodities. Figure II shows the fluctuations in wheat exports. During the period when the West was growing rapidly, exports did not increase as rapidly as output, and the tariff rate was high and of a protective nature until the time of Wilson's administration. With the lowering of the tariff under that administration, exports of wheat tripled. Then after the Republican high tariff and other restrictive measures were instituted to protect American industry and agriculture, exports fell to only a small fraction of their former levels. By World War II the United States had practically withdrawn from the world market although tariffs had been lowered. Since World War II most exports

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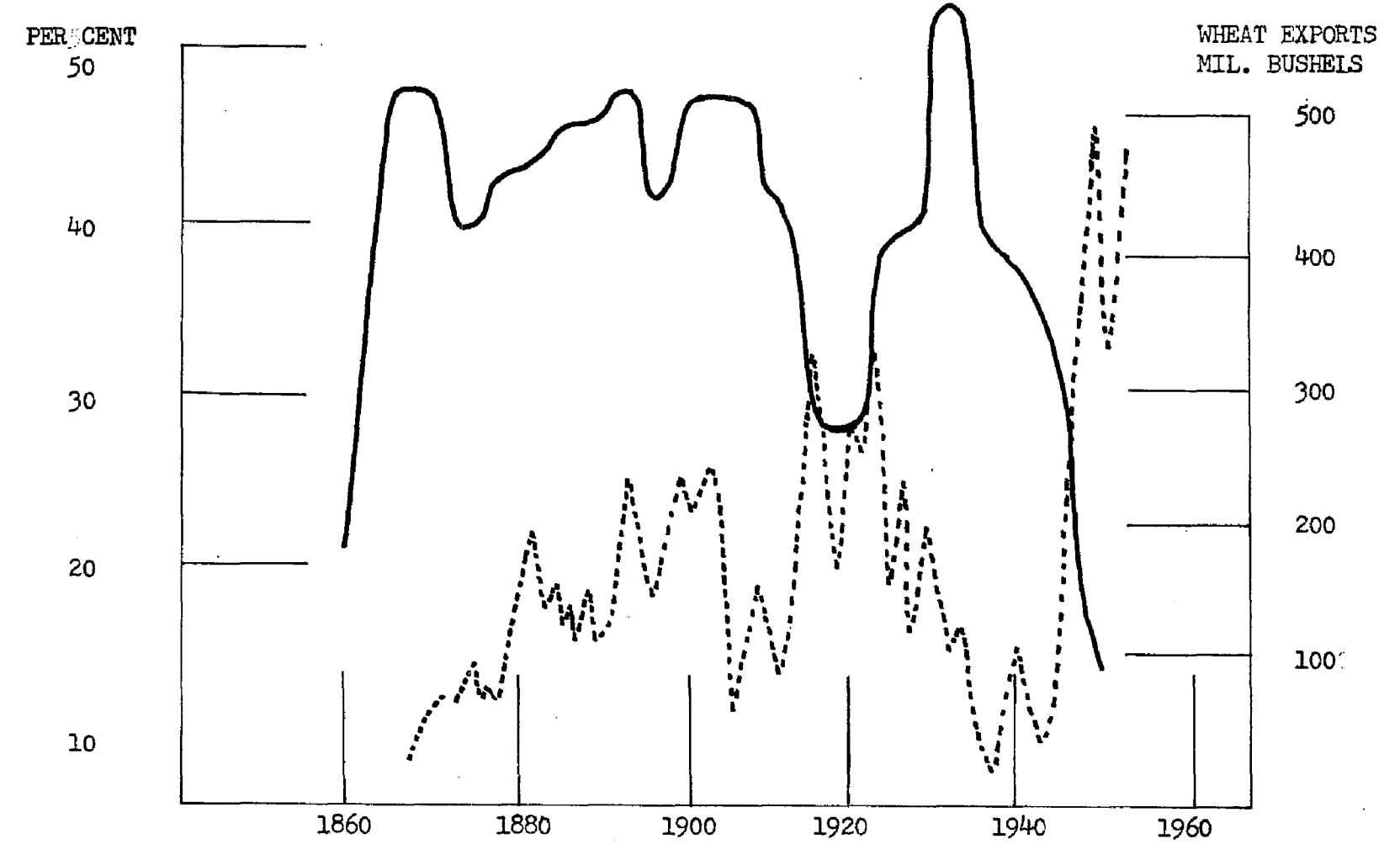
[39] Perry, op. cit., pp. 9-48.

[40] D. Gale Johnson, "Reconciling Agricultural and Foreign Trade Policies," The Journal of Political Economy, LV (December 1947), pp. 567-568.

FIGURE II
WHEAT EXPORTS
TARIFF RATES AS PER CENT VALUE OF DUTIABLE GOODS



Sources: Wheat exports, FOREIGN AGRICULTURAL TRADE, Statistical Handbook, USDA, Table 48, p. 35.
Tariff Rates, FIGURE I. p. 106.

have been subsidized and large quantities sent to the Allies and occupied territories that were attempting to rehabilitate. So the rapid increase is therefore not to be attributed entirely to the lowering of tariff rates. This is evident in an examination of the fluctuations affecting several individual commodities.

Figure III compares the fluctuations of cotton export quantities with the tariff rates. There was a steady rate of growth from the Civil War until after 1900. Cotton exports fell off rapidly when war started in Europe in 1914, but had almost regained pre-war levels when the depression occurred and the high tariff levels of 1930 were instituted. The depression probably was the major factor in the subsequent decline, but the high tariff of 1930 was enacted at the same time cotton exports were declining rapidly. Since World War II cotton exports, although subsidized by the government, have never been as important as during any other period since the turn of the century.

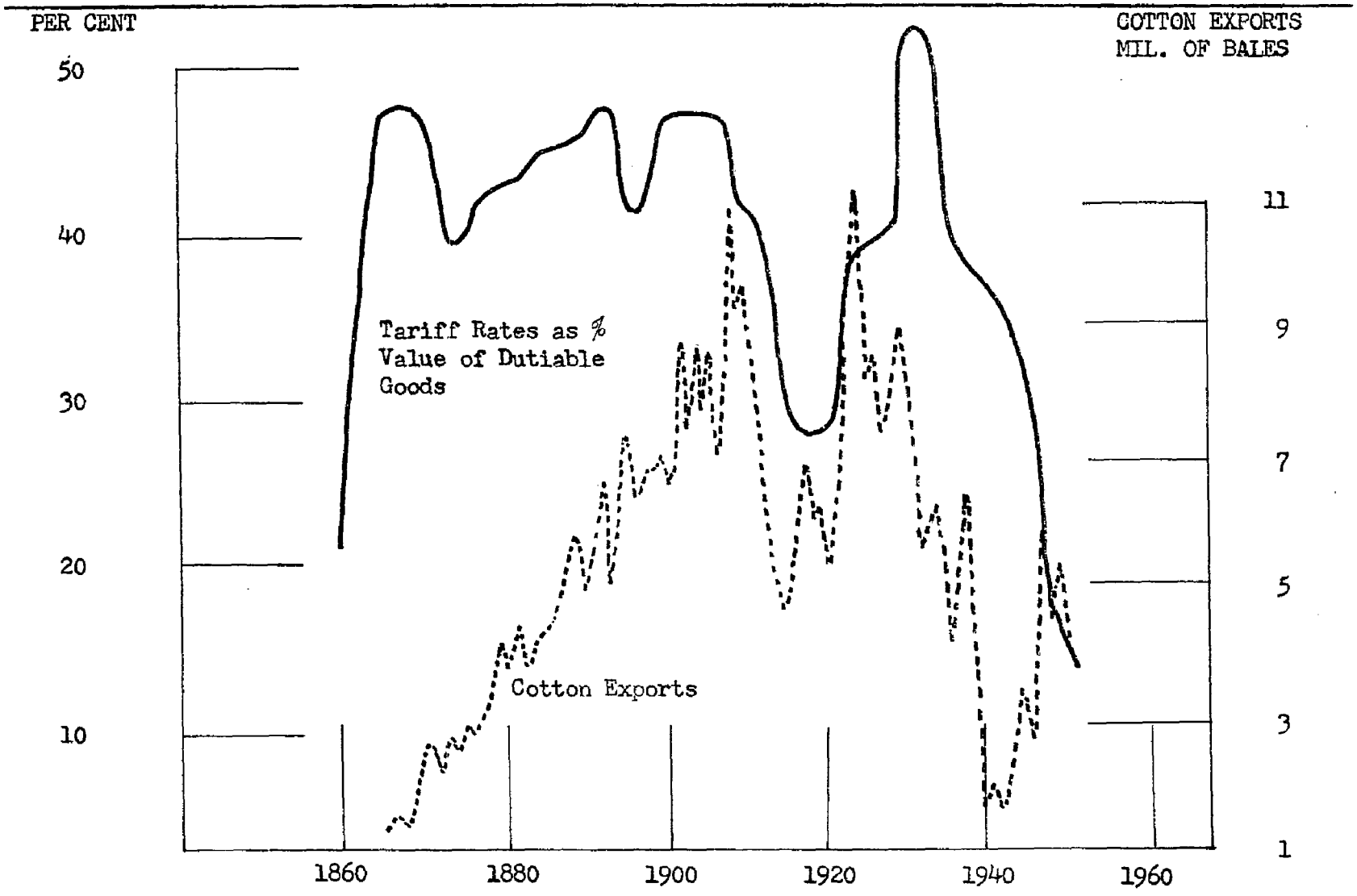
Figure IV shows the fluctuations in tobacco exports. Since 1890, decreasing tariffs appear to correlate with increases in tobacco exports and vice versa. This commodity, as noted earlier, has an inelastic demand and the fluctuations are not as violent as in the case of wheat or cotton.

Relying on the findings of Mr. Perry and the three commodity comparisons shown here, it seems safe to conclude that import restrictions generally mean fewer exports of domestic farm commodities. Conversely, lower rates seem to stimulate exports of these commodities.

Shifts from Production of Efficiently-Produced Export Crops to Other Commodities.

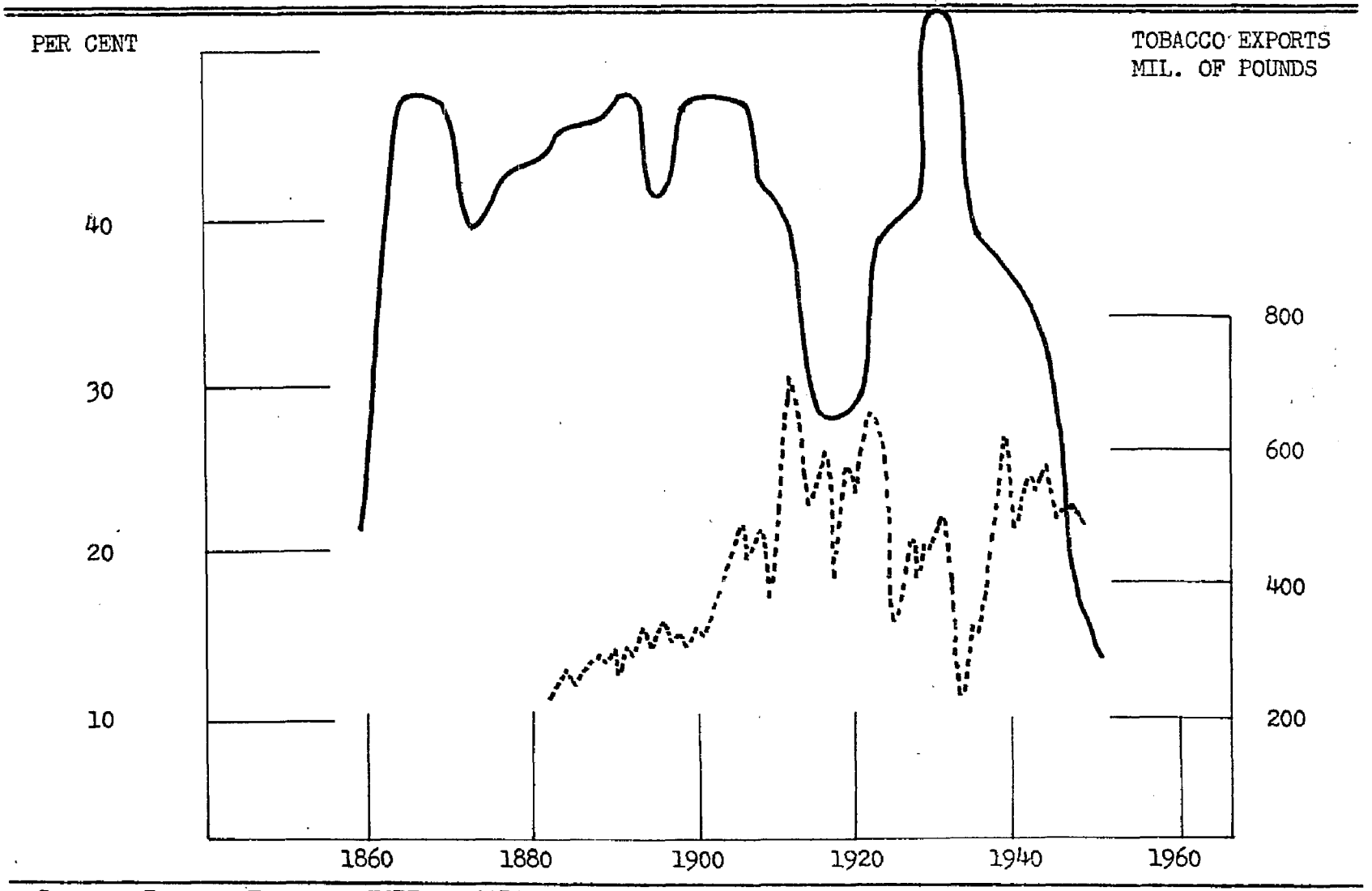
When an export crop that is well suited to the combination of productive factors in a given locale loses much of its foreign market,

FIGURE III
COTTON EXPORTS
TARIFF RATES AS PER CENT VALUE OF DUTIABLE GOODS



Source: Cotton Exports, FOREIGN AGRICULTURAL TRADE, Statistical Handbook, USDA, Table 231, p. 199.
Tariff Rates, FIGURE I, p. 106.

FIGURE IV
TOBACCO EXPORTS
TARIFF RATES AS PER CENT VALUE OF DUTIABLE GOODS



Source: Tobacco Exports, FOREIGN AGRICULTURAL TRADE, Statistical Handbook, USDA, Table 220, p. 180.
Tariff Rates, FIGURE I, p. 106.

alternative crops must be produced and domestic consumption stimulated, or land must be retired from cultivation. The commodity that normally goes into the export market under competitive conditions is usually the one that makes the best use of productive factors. And in some instances small farms specializing in an export commodity and having little or no flexibility are apt to be hurt much more than larger concerns with a greater degree of flexibility.

If we must use mechanized production methods in agriculture to remain efficient, and the trend from mule to tractor would indicate that this is so in the following must accompany increasing mechanization: (1) enlargement of the acreage base of the farm operation; (2) an increase in the technology of production methods on existing acreages; or (3) a decrease in the amount of labor used in similar farming processes.[41] The loss of exports would have the effect of cutting total acreage and increasing the amount of labor on the same acreage on those farms which are too small to produce alternative commodities. Farms large enough to shift production would, of course, still be less efficient when the new commodity is not as well adapted to the productive factors as the lost export crop. In addition, the producers for domestic markets would face increased competition and depressed prices when the export producer shifts to domestic commodities.

Except for the present, with policy now aimed at liquidating surpluses, agricultural exports have been declining for a number of years.[42]

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[41] Family Farms in a Changing Economy, (Washington, Agricultural Research Service, March 1957), p. 57.

[42] Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit., Table 1, p. 1. And The Economic Almanac 1958, p. 48. The use of current dollars fails to show a decline. It is only when constant dollars are used that a value decrease is evident.

> that agriculture, generally, may not remain a labor-intensive occupation."[43]

The advantages which American exports enjoy are, in Humphrey's opinion, generally due to a high degree of capital utilization. Thus, the expectations for future trade are for a decrease in agricultural exports or an increase in imports which are not adaptable to machine cultivation. Conversely, if the United States is to remain a major exporter of agricultural commodities, the crops most likely to make up these exports, in the long run, would be those capable of using capital with a great deal of efficiency. The short-run pattern may be different as long as there remains a great deal of under-employment in cotton, tobacco, and other export crops. It is possible, of course, that price supports will not remain an unalterable bar to eventual use of equilibrium forces to allocate resources and increase efficiency.

Capital-Intensive Crops and Exports

Wheat production, as has already been noted, has been particularly adpated to conditions found in America and historically has been a major item of export. Because America has had relatively high cost labor, capital has been substituted whenever possible. England, unable to use extensive farming methods was unable to compete and repealed the Corn Laws in 1846 in order to import from America and other areas that produced wheat cheaper. Wheat production continues to adopt capital using production methods and wheat is a major export item.

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[43] Don D. Humphrey, "Forces of Disequilibrium and World Disorder," American Economic Review, Papers and Proceedings (Washington, D. C., December 1953), pp. 553-554.

Another significant shift in the pattern of our trade was manifested by the beef export industry, which flourished in the United States as long as the frontiers were open to extensive use of range lands. The United States had a comparative advantage over all other producers until the advent of refrigeration. The reason for this advantage was that the major importing nation, England, was too far from any other basic producing area. As the population of the United States grew, as homesteaders blocked the open western rangeland, and with the advent of refrigerated shipments of meat, the United States lost its advantage. By 1908 Argentina was supplying 64 per cent of England's beef imports.[44] By 1913 the United States became a net importer of beef products and has remained so except during periods when war stimulation temporarily increased exports.[45] In the case of beef exports, the use of capital (refrigeration) by competitors forced a reduction in the amount of American exports.

Cotton exports had grown steadily until just prior to World War I. Then world conditions and possibly foreign resistance to the high tariff levels of the United States caused exports to be reduced. After the war, cotton exports almost reached their former level before increasing tariffs and price support programs plus general world disequilibrium again caused a reduction of exports. During this unstable period between wars mechanical advancements began to affect cotton culture.

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[44]International Institute of Agriculture, International Trade in Meat (Rome, Italy: Villa Umberto I, 1936), pp. 21-22.

[45]Lynn Ramsey Edminster, The Cattle Industry and the Tariff (New York: J. J. Little and Ives Company, 1926), p. 48. During World War II the United States was temporarily a net exporter of beef products. Today certain of the beef products are exported while others are imported.

An absolute decline in exports of agricultural products is to be expected when the stimulus of war and rehabilitation ceases. This, of course, will inevitably increase the competitive pressure on the commodities not dependent upon exports for a market or call for a program of dumping. It would seem that as much as possible of the war-stimulated export market should be maintained, if possible, by reducing barriers against imports rather than by the use of dumping.

The domestic agricultural support programs, by their continuation of "floors", are a major factor in the decline of exports. These government "floor" prices, which have been shown to be above the cost of production of many producers, exclude exports on a competitive basis and lead to dumping when an attempt is belatedly made to recapture a lost export market.

The Shifting Pattern of United States Agricultural Exports

Humphrey points out some major influences on the general pattern of our agricultural exports as follows:

> "As a general rule, America's comparative advantage lies increasingly in capital-intensive industries which are, also, the growth industries, ... To the extent that imports create additional agricultural exports, these can generally be provided by existing underemployed resources in tobacco, cotton and certain other export crops. Moreover, agricultural exports are already distended by foreign aid and American consumers will not buy much more food and fiber simply because aid is reduced. The long term trend, as indicated by the decline of agricultural exports relative to total exports, seems to be in the direction of reducing our comparative advantage in agriculture, generally. It is possible that this trend has been interrupted by mechanization and

The mechanization of cotton production has developed since support programs have become a factor in the pricing of cotton. As long as the administered price level channels cotton into government warehouses rather than into foreign trade at world prices, there will be little opportunity to determine whether efficient production, of itself, will be able to recapture lost export markets. As it is, exports of cotton are just as likely to be from a high-cost operation as from a low-cost one. As long as supports and quotas determine price and acreage in cultivation, there will be little chance for efficiency in cotton production to determine the export pattern. The factor that is more likely to determine export levels is the output of competing nations at prices below United States support levels or the dumping policy that is used in order to reduce the "surplus" of American cotton. In addition to foreign cotton competition, the competition of synthetic fibers and paper must be considered in predicting future export patterns.[46] The ability of potential import nations to obtain necessary foreign exchange to pay for American cotton may also be a major factor affecting the quantity of cotton exports.

Hand-Intensive Crops and Exports

As was shown above, the production of cotton is both hand- and capital-intensive. That is, some farms make maximum use of mechanical implements to reduce hand labor, while others still follow age-old production methods of man and mule. In any event, different factor combinations are used to produce a homogenous product. The lesser efficiency of hand-intensive culture might be said to be indicated alone

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[46]Benedict, op. cit., pp. 33, 43-45.

by the rapid change from men to capital in the past few years. The picking of cotton was entirely by hand until 1926, when the cotton stripper began to take the place of human pickers. It was not until 1948 that successful use was made of cotton picking machines. Nevertheless, cotton was successfully holding its share of the export market before mechanization started.

Since the advent of mechanical harvesting and cultivation, cotton has been losing its place in world markets. As mentioned above, support programs have not helped American cotton hold its place in the world market. Synthetic fibers have begun to compete for its customers. Industry moved to the South in ever increasing magnitude during and after World War II and this increased mobility affected the demand for harvest hands in such a way as to force labor costs up in the areas that have long been dependent on cheap hand labor in the production of cotton.

Tobacco farming, as contrasted to cotton production, is one field of agricultural endeavor which has not yet been able to make use of any appreciable substitution of capital for labor. In fact, most tobacco farms are so small that it would be uneconomic to attempt mechanization. The average size of tobacco plots is about 2 acres for each farm unit.[47] On such small plots the necessary capital investment for a tractor would not pay for its saving in labor. The farms producing tobacco usually are small, 15 to 30 acres, and they depend on general farming as well as on the small tobacco plot which is the chief source of cash.

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[47] J. E. Thigpen, Director, Tobacco Branch, Production and Marketing Administration, USDA, A Statement in the hearings before the Committee on Forestry and Agriculture, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, 83rd Congress, Washington, D. C., (1953), p. 818.

Larger farm units would be more suitable for mechanization, but the large amount of hand labor required to produce a crop of tobacco limits the size of tobacco plots and limits the time that can be spared to till the other crops. Largely by reason of the nature of the work of tending and harvesting tobacco, the tractor could not be utilized at the peak season of labor use. Tractor use would therefore not materially reduce labor costs, but it would certainly increase capital investment, an investment which would not pay for itself by means of a reduction of other costs.[48]

American production of tobacco is making no appreciable headway toward mechanization as contrasted with production changes in most export industries. But the major reason for the limitation on our foreign sales of tobacco is the lack of dollars on the part of foreign buyers rather than a decline in our comparative advantage with respect to that crop. Comparisons with foreign produced tobaccos are difficult because of differences in the types of tobacco raised. Experience has established the fact that, where there is available foreign exchange, American tobacco will very frequently be purchased in preference to other tobacco.[49] The pattern for exports would thus seem to depend on the purchasing ability of consuming countries. American tobacco producers are heavy users of hand labor, yet the efficiency with which that labor is used appears to be enhanced by reason of the comparatively high quality of the tobacco produced. Tobacco, in fact seems to be

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[48] Street, op. cit., pp. 230-231.

[49] J. C. Lanier, A Statement in the hearings before the Committee on Agriculture and Forestry, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, Washington, D. C., 83rd Congress, (1953), pp. 824-827.

the major exception to the generalization that American agricultural exports will need to substitute capital for labor in order to remain competitive in world markets.

Summary

By way of a recapitulation of the major generalizations to be derived from this chapter are four statements which might be made to serve as guides to policy affecting foreign trade in agricultural products.

(1) Leading export crops tend to be more efficiently produced than most crops, if agricultural efficiency, like industrial efficiency, can be measured in terms of man-hour returns.[50] Since costs are determined to such a large extent by the relative scarceness of the factors of production, efficiency in American agriculture is generally higher in the production of those commodities which are adaptable to the conditions of the land on which they are grown, and which are readily produced with a high degree of mechanization. Tobacco production affords one of the most notable exceptions to this general rule.

(2) Internal price support programs act as a deterrent to exports when the price floor is above world price levels. Once established, a price support program through which the government takes ownership and has its sales abroad limited to those which can be made at higher than world prices eliminates even the most efficient producers from the export market. When the government is burdened with unsold quantities

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[50]Professor Kravis in his article "Wages and Foreign Trade," previously cited, shows the correlation between industrial export items and their relatively high man-hour returns based on Bureau of Labor Statistics input-output studies of 1947 and 1952. However, the findings of hourly earnings in agricultural commodity production in this same article are based upon prices relative to input costs, which would tend to show the crops with the highest support price, and which make the greatest relative use of productive land, due to acreage limitations, as the most efficiently produced.

of commodities, pressure to dump surpluses on foreign markets is applied. The alternative actions involve the use of marketing quotas or acreage restrictions.

(3) Wages paid for any one crop's production are determined more by the worker's alternatives than by any margin of production that could be attributed to him. Where wage rates are high relative to output, the tendency for the substitution of capital or to shift production to other crops is strengthened. Attempts to subsidize hand-intensive export producers often leads to dumping. The need of protection for the purpose of subsidizing capital-intensive crops is also a burden on the economy.

(4) Historically, the exporting of agricultural goods has shown an inverse relationship between quantity exported and degree of protection from imports. The exports lost because of protectionist actions are generally the commodities most efficiently produced, or those most highly capital-intensive. The loss of exports means increased competition for domestic markets and thus has a depressing effect on domestic price levels. Such a loss also means a loss of production efficiency by reason of a shifting to crops less adaptable to the resources which are available.

CHAPTER V

HAND-INTENSIVE CROPS AND RESTRICTIONS

Some of the hand-intensive crops that will be dealt with in this chapter were included among the capital-intensive commodities of the preceding chapter. The reason for inclusion of these crops in both chapters is that, for one and the same crop, widely different production methods are used. Variation in methods is frequently dictated by differences in sets of circumstances under which production takes place.

Domestic Output of Chief Import-Competing Crops

In this chapter, as in Chapter IV, Table 8 in the article "Wages and Foreign Trade" by Professor Kravis will be used as the basis for determining major import-competing and major export commodities.[1]

Man-Hour Returns of Leading Import-Competing Crops

There is very little contrast between the man-hour returns of import-competing and export commodities, for practically all the major export commodities are also import-competing. When weighted by their importance in the trade pattern, however, it can be seen that the leading import-competing industries do not return as high hourly earnings as do the export crops.[2] Again, as was pointed out in the preceding chapter, the

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[1] Supra, Table IV, p. 106.

[2] Kravis, "Wages and Foreign Trade," Table 9, p. 30. The work by Kravis, as noted on page 124, was based on Bureau of Labor Statistics, input-output studies of 1947 and 1952, as far as industrial efficiency was concerned. The efficiency findings, as far as agricultural commodities are concerned, were originated by Kravis who used raw data furnished by the U.S.D.A. This, of course, would tend to show a high degree of correlation between crops with a high support price and efficiency.

inability of freedom of market price to operate as a determinant of production may be as much a causal factor in determining hourly earnings as is efficient use of resources.

Inefficient producers are those who are unable to make use of the given factors in a combination which would allow them to enjoy a comparative advantage in competition with other producers. Comparative advantage, according to Humphrey, lies increasingly in capital-intensive industries, which are also the growth industries. Our comparative disadvantage, on the other hand, is increasingly concentrated in the labor-intensive branches of agriculture which suffer from relatively stagnant markets. The same writer insists that America's import problem may be attributed to under-employment, especially in southern agriculture. In spite of some alleviation of under-employment in that area, agriculture is not yet able to absorb the workers who would be displaced by increased imports.[3]

As for the effects that foreign trade would have on the effective use of manpower if restrictions are eased, Johnson points out the following. Freeing trade would have little or no direct effect on the number of job opportunities in agriculture. However, shifts would occur within agriculture with losses in some import-competing crop production and some gains in the export commodities. Estimates show that protected products account for about 15 per cent of labor requirements in farming while export branches account for 30 per cent.[4] As the export commodities have been shown to have a higher per man-hour return

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[3]Humphrey, "Forces of Disequilibrium and World Disorder", pp. 553-554.

[4]D. Gale Johnson, Trade and Agriculture (New York: John Wiley and sons, 1950), pp. 52-53.

than those receiving protection, agriculture, as a whole, would be better off even if jobs did not increase in numbers in response to the easing of trade restrictions.

Any shift due to easing of trade restrictions, however, could be toward increased sales of industrial products to foreign countries in order to balance increased imports, and not toward an increase in sales of agricultural exports. If such were to happen, agricultural unemployment would increase and thus make farming an even less favorable competitor of industry for capital and labor utilization. Because the labor used in rural areas seems to be slow in moving to industrial employment, the areas most affected by increasing imports of competitive, hand-intensive commodities would suffer increasing unemployment, and industries producing for the enlarged export market would make greater demands on a limited supply of industrial employees.

If it were possible to shift workers off the farm as fast as their crop could be displaced by cheaper imports of competing commodities, it would make possible an increase in non-farm employment and general living standards.[5] With less labor called for, increased adjustments in capital use, larger farm units, and less pressure on land prices, farms would strongly tend to become efficient in resource utilization at a much accelerated rate, or cease to exist as farms. Table XI shows the shift away from Class IV, V, and VI farms and the increase in Class I, II, and III farms.

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[5]Don D. Humphrey, American Imports (New York: The Twentieth Century Fund, 1955), p. 254.

TABLE XI

NUMBER OF COMMERCIAL FARMS BY ECONOMIC CLASS, UNITED STATES, SPECIFIED YEARS 1929-1954

Economic Class of Farm[1]	Number of Farms in Thousands 1930	1940	1945	1950	1954
Class I	47	60	91	103	134
Class II	205	252	347	381	449
Class III	560	585	723	721	707
Class IV	1,078	1,015	976	882	811
Class V[2]	1,274	1,070	867	661	536
Class VI[2]	1,559	1,283	937	717	463
All Commercial Farms	4,723	4,265	3,941	3,465	3,100

[1]Classification of farms by value of sale based on 1954 prices.

[2]Excludes farms whose operators worked off the farm as much as 100 days or those with other income (of operators and family members) greater than sales from farm commodities.

SOURCE: Family Farms in a Changing Economy, Agricultural Research Service, USDA (Washington, D. C., March 1957), p. 48.

The operators of the larger farms have generally adopted new techniques before the average farm operator. The time lag between invention and utilization tends to be fairly short on larger farms which show more adaptability to production conditions.[6]

Assuming that the trend to larger farms is caused by increased productivity, and that most of the import-competing commodities have producers in all six commercial farm categories, the effect of any increase in imports will be felt most by the Class IV, V, and VI commercial

[6]Family Farms in a Changing Economy, Agricultural Research Service, USDA, op. cit., p. 48.

farms. The gains from protection that accrue to the larger, more efficient producers will be capitalized into land values. That is to say, land will be valued in accordance with artificially maintained domestic prices and not according to world prices. Land value is the result of price-cost relationships. The costs of labor-capital inputs relative to price of commodities determine rent and estimations of future rents. The expectations of rent, when capitalized, determine the value of the land.[7]

Land use in commercial agriculture where landlord-tenant relationships exist will produce a contract rent whether paid in cash or on shares. This rent is a direct payment for the use of land and is often determined by the bargaining power of landlords and tenants. Where intense competition arises for the privilege of using the land, rents will be so high that the renter must take reduced wages. This gives the renter a lower standard of living, and the "windfall" rents of landowners become converted into land value.[8]

The statement on land value, as given above, is not amplified to the point of taking into account what would arise if the element of absentee ownership were not present and an arbitrary division were necessary to determine rent and wage returns. Over a period of time this problem would be ironed out of itself, as new farmers would buy farms from estates and from retiring farmers. Experiences connected both with World War I and World War II tended to show that the time period for land values to appreciate was relatively short. Table XII shows the lag

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[7]Ely and Wehrwein, op. cit., p. 121.

[8]Ibid., pp. 132-133.

of land value changes behind the change in commodity prices between 1940 and 1956. From 1940 to March 1948, for example, the index of land values rose from 82 to 167. During the same interval, the commodity price index rose from 101 to 296.

In Table XI1 the land value index shows very little change from 1952 to 1955 during the period that the commodity price index shows a decline of 50 points from 300 to less than 250. With a poorer relationship between rentals, or returns on land, and commodity ;rices, farmers were faced with the problem of increasing output or facing a lower level of living. This was especially so for tenants who were farming in an area of underemployment of agricultural production factors. With increasing disparity between land value and commodity prices, the competition of share croppers or renters for land to work would force the major share of the loss onto the shoulders of the renter. Under such conditions, and with a very high level of industrial employment, the normal reaction to expect would be an increase in the movement from farms to industry. Table XI1 shows that this movement was under way when the last census of agriculture was taken. The less efficient farms were being consolidated, and capital was supplanting labor which was shifting into industry.

Protection from foreign production, along with support prices at admittedly stimulatory levels since World War II, have tended to retard the shifting of resources to more effective utilization.[9] Economically, this action seems as ill-conceived as an attempt to support industry by

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[9]Present price support levels are considered as being stimulating if the AAA levels of 52 to 75 per cent of parity were adequate to restore farm incomes to the proper ratio with other income groups as it was deemed to be by the administration and Congress in 1933.

TABLE XII

INDEX NUMBERS OF LAND VALUES AND COMMODITY PRICES

Year and Month	Commodity Prices[1]	Land Values[2]	Year and Month	Commodity Prices	Land Values
1940	101	82	1949		
1941	105	83	March	265	172
1942			July	256	170
March	144	90	Nov.	244	167
July	153	89	1950		
Nov.	162	91	March	237	168
1943			July	246	171
March	179	98	Nov.	268	179
July	194	100	1951		
Nov.	194	103	March	295	193
1944			July	307	201
March	198	112	Nov.	294	205
July	198	115	1952		
Nov.	194	117	March	300	211
1945			July	291	213
March	202	124	Nov.	289	212
July	207	128	1953		
Nov.	206	130	March	270	209
1946			July	261	207
March	212	140	Nov.	255	201
July	218	144	1954		
Nov.	252	148	March	255	201
1947			July	255	202
March	260	155	Nov.	246	204
July	271	158	1955		
Nov.	280	160	March	243	206
1948			July	244	213
March	296	167			
July	290	171			
Nov.	288	174			

[1]Index of prices received by United States farmers, (1910-1914 = 100). Indexes shown are an average of the four previous monthly indexes. Current data published in monthly price report, agricultural prices (AMS).

[2]1912-1914 = 100. Indexes for 1940 and 1941 are as of March 1. Indexes for 1942 and later years are as of March 1, July 1, and November 1. Data published three times a year in Current Developments in The Farm Real Estate Market (ARS).

SOURCE: Agricultural Outlook Charts 1956, op. cit., Table 17, p. 64.

continuing to purchase tanks, guns, shells, battleships, and uniforms at the same rate now as during the height of World War II but at prices that would give satisfactory incomes to the inefficient manufacturer. This protection could have been provided, but what would have happened to the shift of resources into production of goods and services that consumers desired? Such a shift would probably never have been made because the government was in a position to bid up prices for guns and tanks. The same is true as far as agricultural production is concerned.

Comparative Wages Paid by Import-Competing Producers

It must be pointed out here, as it was in Chapter IV, that wages are not necessarily determined by the effectiveness of the use of labor. The scarcity of or abundance of manpower in an area is apt to be more of a wage determinant than the relative efficiency of the use of the labor. A farm that produces 10,000 bushels of wheat and is ranked highest in efficiency of resource use would have to pay the same wage to hired help who produce hay on the area not allocated to wheat production; yet hay is the least productive of the users of productive factors among the major import-export agricultural commodities.[10] Total wages, because of any lessening of domestic production of import-competing crops and any increasing of export commodity production, may be less than it was before the change was made. This is true because, with more efficient use of factors, less labor and more capital will be used. When less labor is used and wages tend to be affected by alternative uses, the distribution will give more to capital and less to labor, although possibly wage rates will rise a little. The landowners and capital

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[10] Supra, Table IV, p. 51.

holders will be better off but labor may be hurt. If, however, there is full employment, labor would have nothing to fear from imports produced in low-wage countries.

Trouble may arise, however, from the fact that much of our agricultural help in rural areas is under-employed and incapable of shifting into industrial areas of the economy where we often have "over-full employment." Over-full employment exists whenever there is a much greater number of vacancies than of people looking for jobs.[11] The over-full employment status often occurring in some industries and in some areas tends to increase the rate of supplementing capital for labor, and by so doing, the increased technological advancement gives a competitive advantage to other countries in those industries which are not susceptible to mechanization. This pressure from imports of labor-intensive commodities causes import-competing blocs to lobby for greater protection. Wage level increases, which are dictated by rapidly advancing productivity in dynamic industries, leave the relatively stagnant home industries less able to compete against imports.

The special interest groups do not emphasize the comparative wage rates within the United States. These groups with vested interests compare American farm wage rates against foreign wage rates which are lower. Import restrictions and export subsidies are asked on the basis of low foreign wages and living standards in import-competing and export industries.

An example of the arguments given for continued aid for an industry that is unable to compete in world trade and is accordingly fearful of imports is that given before the House Ways and Means Committee in 1956

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[11] Ohlin, The Problem of Employment Stabilization, p. 6.

by the Assistant Secretary of the National Milk Producers Association.

> "Agriculture is the largest segment of the American economy, and dairying is the largest segment of American agriculture. The economy of the whole country would be impaired by foreign-trade policies which resulted in serious dislocation for the American dairy industry.
>
> "During the past 20 years, there has been built up in this country an economy which in many respects is above the world level. This is particularly true with respect to wages, living standards, and costs of production. In order to keep the prices which farmers receive reasonably related to the cost of the things that farmers buy, and thus maintain the purchasing power of this important segment of the economy, the prices of many agriculture commodities must be maintained at levels substantially above world price levels.
>
> "As long as this condition exists, effective import controls will be necessary to prevent the dumping of world surpluses on our shores, and some form of export price adjustment will be needed to permit American agricultural products to move in world trade at competitive prices in sufficient volume to retain a fair share of the world markets."[12]

This is the type of argument given by most vested interest groups that wish to continue using too many resources to produce too few consumer goods relative to alternative uses for capital and labor. The figures which are used in such arguments to prove the plight of the producer to be so much below other segments are averages which relate to Class IV, V, VI commercial farms, and non-commercial farms. No mention is made of the adequate incomes of Class I, II, and III farmers; or the under-employment of resources in Class IV, V, and VI; or the living-in-the-country aspect of the million and a half non-commercial rural homes listed as "other farms."

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[12]Patrick B. Healy, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Washington, D. C., (1956), p. 508.

First, it should be noted that purchasing power would be higher, not lower, for the nation if resources were not under-employed in agricultural pursuits. At the same time that resources have been under-employed in much agricultural production, there has been over-full employment in certain industrial areas.

Secondly, if agricultural prices are above world prices with too much of the nation's resources allotted to agriculture, American consumers must pay higher prices than would otherwise be necessary to buy the unwanted quantities which high prices beget. Instead of being solved, the problem of uneconomic production will be perpetuated, in part, because of a continued plea to stop foreign nations dumping in our market and because of a sustained pressure in favor of our dumping in their markets. The misdirected use of resources, if continually and adequately subsidized, will forever preclude their shift to an economic use where productivity would allow high returns to the factors. The income problem will not be solved for the marginal producers, yet windfall gains will be had by many.

Historic Pattern of Import-Competing Commodities

Wool was the oldest of the hand-intensive commodities, although additionally a land-intensive commodity, to seek and receive import restrictions. Sugar producers also were early in their demands for protection, and when protection was first sought, cane production was hand-intensive. Now, however, domestic cane sugar producers have shifted to machines to replace labor which has become relatively more expensive.

Imports of wool made up about one-third of the amount used by domestic processors in 1910. This share increased to about three-

fifths in 1918 but dropped to about one-eighth in 1932. After 1939 imports increased to about three-fourths of that used during the last years of World War II.[13] Since the end of the war, quotas and tariff restrictions have not been able to materially stimulate sheep growing and wool production. Western grazing lands have been too profitably engaged in cattle production to return to sheep grazing, although imports of wool carry a tariff rate of 25 1/2 cents per clean pound. "More than half of domestic wool production has been displaced by imports without injury because cattle raising, dairying, and other types of farming offered profitable alternatives."[14] Figure V shows the relationship between wool imports and wool prices. When wool prices went down, imports declined, and when prices went up, imports were generally increased. From this information it may be deduced that price declines were not caused by imports.

Tobacco cannot properly be included in this section on import-competing commodities, because tobacco which enters United States markets from foreign sources is not import-competing but is made up of specialty types that the United States does not produce.

Palm oil and coconut oil compete with domestically produced oils. Although the palm and coconut oil imports are hand-intensive, they are for the most part competing with capital-intensive domestic oils from sources other than palm and coconut trees. Coupled with increasing productivity in soybean, peanut, and cottonseed oil production, there has been a change in demand from soap to detergents within the United

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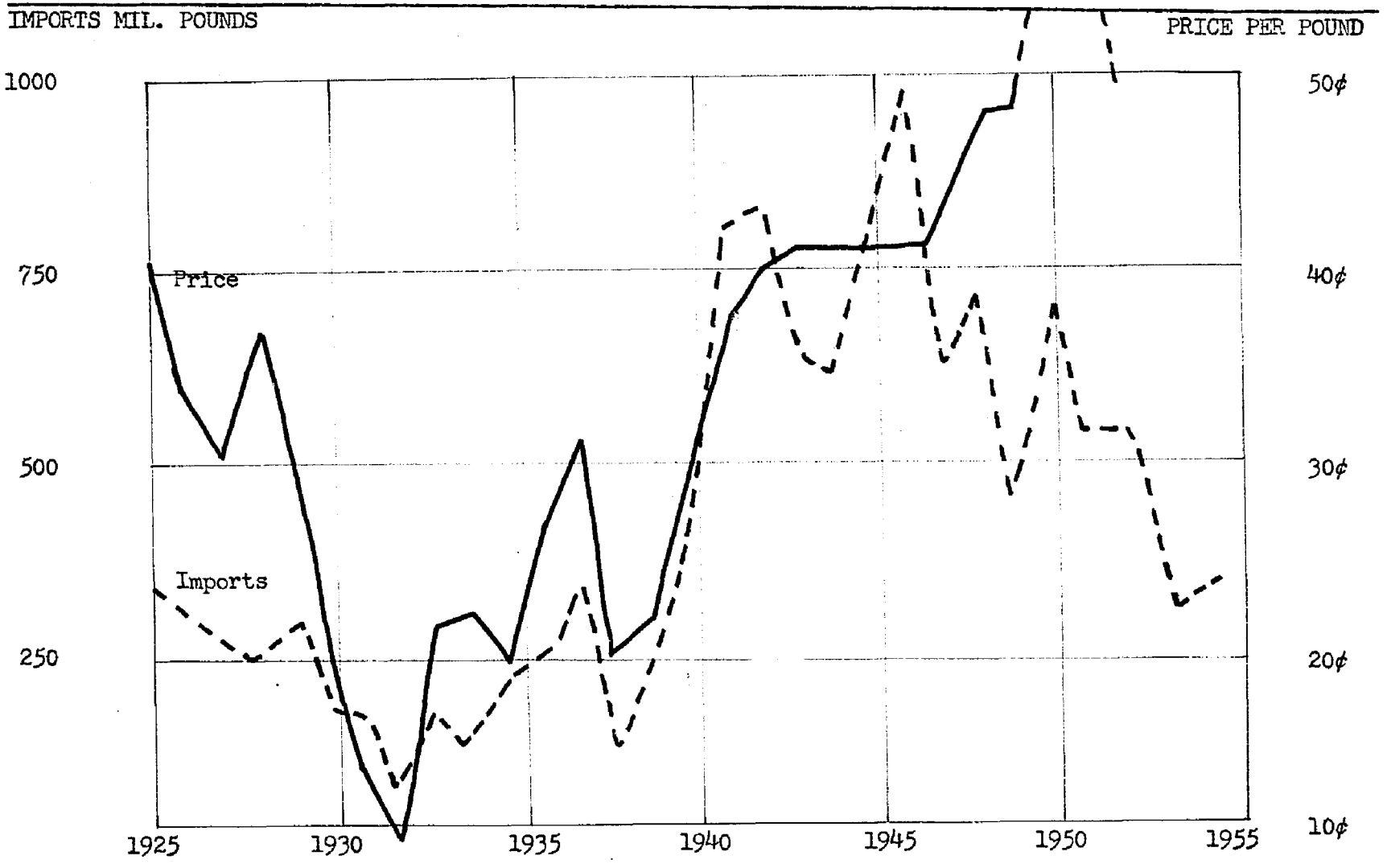
[13] Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit., Table 260, p. 229.

[14] Humphrey, American Imports, p. 478.

FIGURE V
WOOL IMPORTS, PRICE OF WOOL IN CENTS



Sources: Wool prices furnished by the United States Department of Agriculture as presented in the 1953 Senate Hearings FOREIGN TRADE IN AGRICULTURAL PRODUCTS, p. 513. The price went to $3.86 a pound for cleaned wool in March 1951.
Wool imports were obtained from FOREIGN AGRICULTURAL TRADE, Statistical Handbook, USDA, table 260, p. 229.

States, and this has lessened the demand for tallow and grease. While the United States yearly exports in fats, oils, and oilseeds have increased from 41,000 tons in 1935-1939 to 638,000 tons in 1954, the total world trade excepting that of the United States decreased by 540,000 tons. The United States percentage of total world exports increased from 2 per cent to 26 per cent in a period of just under twenty years. Imports of copra were about one-third higher in 1955 than in 1925-1939; coconut oil and palm oil imports declined about 50 per cent and 80 per cent respectively in the same period.[15] Table XIII shows how the United States has increased its exports of oils, fats, and oilseeds as compared with the total world exports.

In spite of the optimistic outlook for oils and fats in general, tung oil producers asked for protection in 1953 and received it in 1954.[16]

Imports and Restrictions Placed Thereon

Special restrictions on imports of agricultural commodities have proved embarrassing in many instances where America has attempted to assert leadership in international affairs. Quotas and embargoes that have provided minimal benefits to farmers have handicapped American leadership. On the other hand, import quotas on commodities that normally are leading export crops, such as wheat, make little distortion in normal trade channels.

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[15] Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit., Table 219, p. 179. The exports of fats and oils increased markedly in 1955 and again in 1956. See The Economic Almanac 1958, p. 45.

[16] Thirty-Ninth Annual Report of the United States Tariff Commission 1955 (Washington, D. C., U. S. Government Printing Office, 1955) p. 19.

TABLE XIII

UNITED STATES AND TOTAL WORLD EXPORTS
OF FATS, OILS, AND OILSEEDS

Commodity	Average Annual in 1,000 Tons				
	1935-39	1945-49	1950	1952	1954
Edible Vegetable Oils	1,000	1,000	1,000	1,000	1,000
World Total	1,753	850	1,430	1,210	1,810
United States Total	41	174	352	293	638
Animal Fats					
World Total	885	765	1,150	1,250	1,465
United States Total	97	312	520	709	854
Grand Total					
World	6,561	4,042	6,201	5,872	7,268
United States	140	509	957	1,053	1,880
United States per cent	2	13	15	18	26

SOURCE: Foreign Agricultural Trade, Statistical Handbook, USDA, (Washington, D. C., 1956), Table 219, p. 179.

Import duties are less offensive to foreign exporters than the other protective devices employed to protect domestic producers. The tariff, although obstructing imports by making them expensive to American buyers, is non-discriminatory to the export nations. On the other hand, allotting import quotas to supplying countries is at best an arbitrary action and may prove very discriminatory to certain suppliers. This discrimination by arbitrary allotments may be especially distasteful if quotas are based on past import quantities and a certain country should wish to enter the market as a newcomer. Argentina has repeatedly protested the 1930 sanitary regulations act since it is obvious that exclusion of Argentine meat under this act is more than a biological measure; and since the application of the act is nationwide, it

thus includes the disease-free regions as well as areas that have traces of certain diseases such as the hoof and mouth affliction.[17]

Effects on the Status of Protected Producers

In the case of domestic support programs for particular commodities which are normally import-competing, quotas limiting domestic output must be coupled with import restrictions. Without such limitations, consumers will buy imports to use and pay taxes for government purchases of domestic production.

And in addition, as long as the lower income group of commercial farms and other farms are included with the upper income group of farms producing a particular commodity, the average income levels are apt to indicate a need for protection. With the use of averages based on all producers it is difficult to determine if the farms which are efficient actually need protection from imports.

With many United States exports categorized as luxury and semi-luxury items and with basic or primary products making up a smaller portion of the American export pattern, tariffs are apt to be more effective than when primary products made up the bulk of exports. As long as American exports are of such a nature that they must be had regardless of the price, tariffs are apt to be less effective. Of course absolute quotas or quarantine will prove protective regardless of the highly inelastic demand for American exports. A nation desperately desirous of certain goods that the United States produces is going to obtain those goods even if it necessitates subsidizing exports of commodities to offset the effect of protective tariffs on like American

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[17]Hickman, op. cit., pp. 61-62.

products. Or if that nation is not permitted to sell its exports in the American market, it may be forced to curtail its American imports. An illustration of this is found in the case of Cuba.

Cuba exports a great deal of sugar to the United States; in fact her position is that of residual supplier. In addition to being given a rigid quota Cuba is permitted to make up 90 per cent of the deficit in American quotas which may be unfilled. Congressional action affords protection for the American sugar industry by means of a quantity limitation on Cuban imports. During the past few years the shortage of dollar earnings that has resulted from such limitations on Cuba's chief crop has caused that country to save scarce dollars whenever possible.

On land that could profitably be planted to sugar, if the market warranted, Cuba is now producing rice. Mr. Reid, President of the Rice Millers Association, which represents over 75 per cent of America's rice producers, confronted a subcommittee of the House Ways and Means Committee, investigating customs and tariff laws, with the information that American rice producers were losing the Cuban market. This market has been developing for American suppliers since the war clouds began gathering in the Orient in 1937. The peak was reached in 1951. Although Cuba cannot normally compete with United States producers, rice production was introduced in the late 1940's. A tax of 6 per cent was imposed on imports from the United States, which nullifies the preferential treatment Cuba had given in 1947 under General Agreement on Tariff and Trade. In addition to the import duty, Cuba set quotas on imports and required import licenses. In 1955 Cuba placed quality limitations on rice imports, and in July 1956 raised these quality standards. Reid further stated that since that date only the highest quality and most expensive

rice has been allowed into Cuba, thus pricing much United States rice out of the market. The exports of American rice to Cuba fell rapidly from 1950-1951 to 1955-1956, with total exports to Cuba declining more than half, from 6,959,708 bags to 3,037,614 bags.[18] This decline of exports definitely is a blow to the American Rice Industry; for Cuba has consistently been America's most important export market with over half of the total exports going to Cuba during several years.[19]

It appears that one special interest group is being discriminated against in favor of another when sugar is protected. Our limited imports of sugar, if expanded, might furnish the foreign exchange needed by Cuba to pay for American rice which our domestic rice producers are eager to sell. American rice producers have as yet not been proven, under normal trading conditions, capable of competing with other suppliers in the world market, but the case of sugar is clear. American sugar admittedly is unable to compete in world markets. In this instance government policy appears to discriminate against rice growers in favor of sugar producers and apparently assures less efficient use of American resources, especially those in one state, Louisiana, which is a major producer of both commodities.

American wool offers another example of a supported industry unable to stand unassisted against foreign competition. Yet it is protected so

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[18]William M. Reid, A Statement in the hearings before a subcommittee of the Committee on Ways and Means, ADMINISTRATION AND OPERATION OF CUSTOMS AND TARIFF LAWS AND THE TRADE AGREEMENTS PROGRAM, House of Representatives, 84th Congress, Washington, D. C., (1956), pp. 891-893. The statistics used by Reid are almost identical to USDA data as tabulated in Foreign Agricultural Trade, Statistical Handbook, Tables 56 and 57, pp. 45 and 46.

[19]Foreign Agricultural Trade, Statistical Handbook, USDA, op. cit., Table 57, p. 46.

efficiently as to prove detrimental to another domestic industry, that of woolen manufacturing, as well as harmful to the exporters of other American goods.

Argentina and Uruguay are two Latin-American nations that depend on exports of meat, hides, grain, and wool for the exchange necessary to purchase the finished commodities they desire for a higher standard of living. According to Willoughby both of these nations use multiple exchange rates as a means of subsidizing wool exports to the United States in order to obtain dollar exchange. In 1953 the official exchange in Argentina was 5 pesos for an American dollar, yet 7 1/2 pesos was given for each dollar obtained from the sale of wool. This then was a subsidy of 50 per cent paid to Argentine wool growers. Uruguay had an official exchange rate for its peso of 1.519 per American dollar, yet gave 2.35 pesos for each American dollar obtained by selling wool.[20] Uruguay was thus paying a subsidy of 54.7 per cent to wool growers. These subsidies paid to obtain dollars no doubt meant that the goods and services which these nations could obtain in any other market would be lost, as exports, by American suppliers.

Wool consuming industries have been confronted with a 66 per cent tariff decrease on wool textile imports since 1939, while duties on -

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[20]Ray W. Willoughby, A Statement in the hearings before the Committee on Agriculture and Forestry, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, 83rd Congress, Washington, D. C., (1953), pp. 470-471. See also, Raymond F. Mikesell, Foreign Exchange in the Postwar World, (New York: The Twentieth Century Fund. 1954), p. 630 and p. 641. The official buying rate in 1953 for Argentina was 5 pesos for one dollar. 50 per cent of dollar exchange from wool sales to the United States was at this rate and 50 per cent at 7.5. Uruguay paid 1.519 pesos for 35 per cent of dollar exchange from sale of wool to the United States and 2.35 for the remaining 65 per cent.

apparel wool have been reduced 25 per cent.[21] According to Senator Kennedy the woolen textile industry has been declining rapidly. Between 1949 and 1953 nearly 100 woolen and worsted mills with around 40,000 employees ceased operation. In addition, many other mills had partially or fully suspended operations. The wool growers in the United States depend upon domestic producers of woolen goods, since wool is not exported. The high domestic price of woolens is partially caused by a high price of wool. The high price of American woolens invites an increased importation of comparatively cheaper woolen textiles, and thus places American producers in an increasingly more difficult position. Allegedly, the high costs of wool were caused more by tariff paid on imports than by payments to American wool producers.[22] There are, however, no available statistical means of proving or disproving the validity of this statement.

Wool production is a joint undertaking with that of raising lamb. Even an increase in price for lamb and wool was incapable of increasing production between 1940 and 1949. As prices went up from $15 to $44 per hundred pounds for lamb during that period, output declined from over 4 million pounds of wool to about 2 1/2 million pounds. Had it not

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[21]Most American woolen textiles are produced from wool finer than grade 44.

[22]John F. Kennedy, A Statement in the hearings before the Committee on Agriculture and Forestry, FOREIGN TRADE IN AGRICULTURAL PRODUCTS, United States Senate, 83rd Congress, Washington, D. C., (1953), pp. 529-539. See also Business Statistics 1955, United States Department of Commerce, Office of Business Economics, (Washington, D. C.: U. S. Government Printing Office, 1955), p. 188. The output of apparel wool in 1951 was higher than it had been in the period before World War II. During the war output had nearly doubled. Senator Kennedy was referring to the loss of wool textile production occasioned from the loss of war markets, but there has been a steady decline since 1951.

been for the break in the cattle price in 1952, wool production would probably have declined further. The decline in sheep production is traceable to the refusal of farmers to produce sheep when there are more profitable outlets for them than in sheep production. Dairying in the East, cattle raising in the West, and cash crops where possible have been expanded to take the place of sheep raising.[23] Figure 6 shows the relationship between wool price and domestic production. It can be seen from this relationship that production has not adjusted to price changes.

With wool growers attempting to restore tariff rates or impose quotas on imports and textile manufacturers asking for relief, the wool program was changed to one of incentive payments under the Eisenhower Administration.[24] The Brannan Plan had earlier been condemned by the same administration while it was seeking election.

Production of such tree crops as almonds and filberts grew with the aid of import fees and producers of these nuts probably need continued protection if production is to continue at anywhere near the present level. These commodities are relatively hand-intensive but need a long growing period of several years before production starts. Any tariff reduction would probably result in increased imports and would conflict with domestic price programs.

Cotton, basically an export crop, enters this country in the form of extra long staple which is free of quota limitations. Short staple

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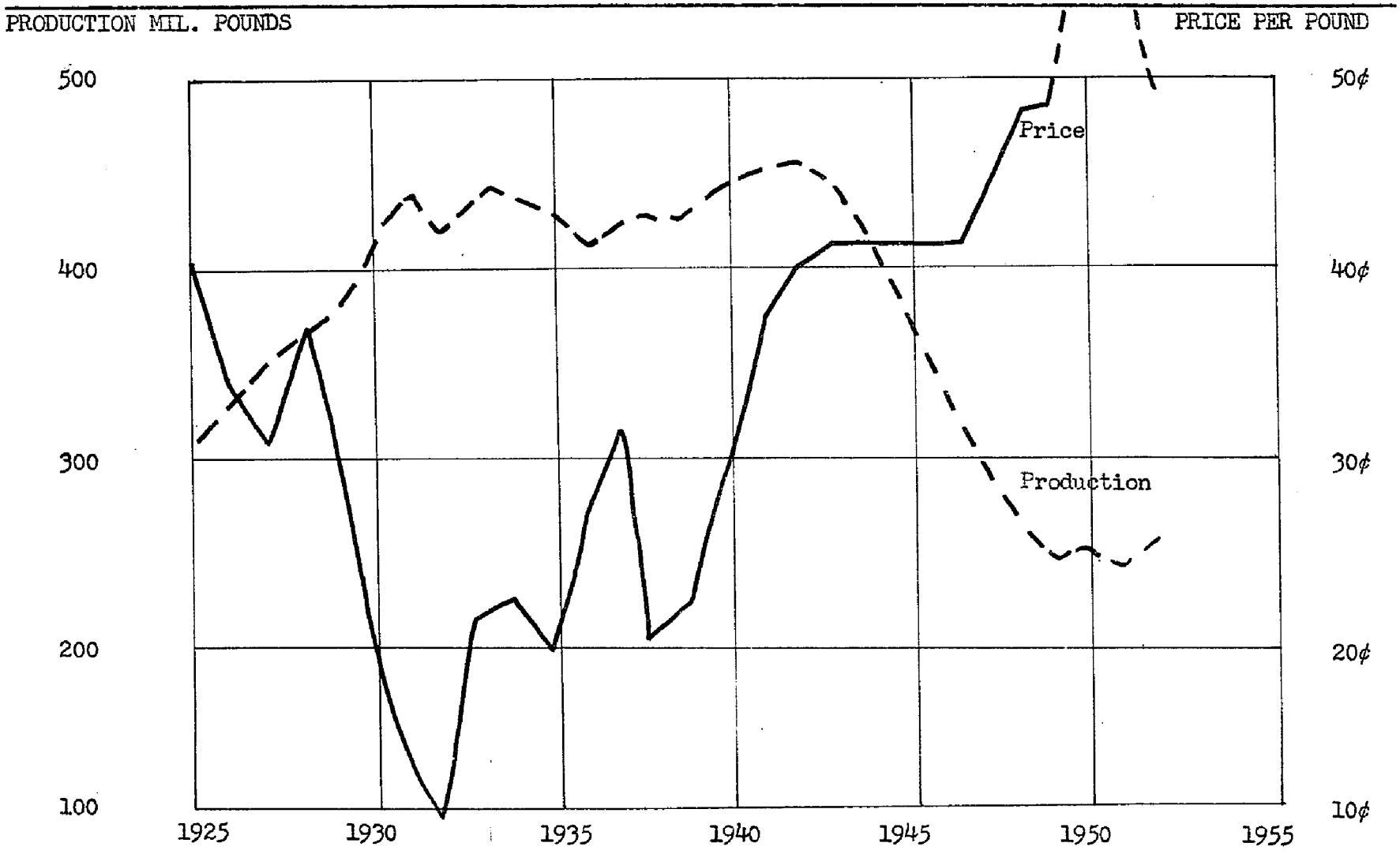
[23]Humphrey, American Imports, pp. 84-86.

[24]Farm Policy Dictionary, op. cit., p. 9. Incentive payments is a form of compensatory payment in which supports are set high enough to encourage production of a commodity at a desired level.

FIGURE VI
WOOL PRODUCTION, PRICE OF WOOL IN CENTS



Source: United States Department of Agriculture as presented in the 1953 Senate Hearings FOREIGN TRADE IN AGRICULTURAL PRODUCTS, p. 513. The price went to $3.85 a pound for cleaned wool in March 1951.

and medium long staple are subject to quota. Cotton, one of the basic crops that is under a price support program, is one of the commodities that is produced by both hand and capital-intensive methods. Cotton of short and medium long staple could be import-competing, if there were no import restrictions, although historically it has been our leading export commodity.

The domestic price support programs on import-competing commodities appear to necessitate import curbs if the programs are to survive. Thus the price support program, while not itself a curb on trade, proves to be restrictive to trade because a support program cannot be maintained if imports are freely permitted. Once a support program is instituted at above world price levels it seems to be self perpetuating. If the price support program is to be a permanent feature of agricultural policy, protection against imports must also be maintained.

Utilization of Resources When Trade Restrictions Protect Import-Competing Commodities.

Protection, which appears to be part and parcel of domestic support programs, has the same effect on resource use as do price support programs. Any text in the principles of economics has a chapter devoted to the agricultural problem. The consensus seems to be that agriculture has too many resources producing more commodities than consumers will take at the prices the producers desire in order to maintain a standard of living comparable to that which comes from other resource uses. The economist's answer to such a problem would be, "let economic forces reallocate the resources." However, the problem is not solved as simply as it may seem and it is likely to remain unsolved for a good many years.

Protection to make price support programs tenable in order to raise farm incomes limits imports and often forces consumers to pay higher

prices than would otherwise be necessary. Production under protection and support programs normally leads to acreage allotment and marketing quotas. Marginal operators are given quotas proportional to the most efficient; this stifling of efficiency, in turn, keeps marginal producers farming when under a competitive situation they might shift to other employment. Stimulation of prices of protected commodities is aimed at paying the productive factors, inefficiently used, as much as the returns would be if such factors were more efficiently used. As efficient use of resources increases in the dynamic industries, less progressive import-competing producers will be faced by higher costs which are not matched by higher productivity.[25]

Coffee and rubber alone have accounted for over 40 per cent of American agricultural imports in recent years. Cocoa, tea, and bananas, like coffee and rubber, are not import-competing. Less than half of our agricultural imports are of such a nature that they compete with domestic production. In the group of imports that are domestically produced, many such as wool, sugar, olives, tung nuts, and filberts are not produced in the quantity that is required to satisfy American consumers. The first group of commodities has no reason to expect restrictions on their import as they are complementary to American agricultural crops. The second group is of such a nature that protection through high tariff or quota restrictions is apt to be very costly for American consumers and not necessarily too beneficial for those that are protected. Wool producers, even with high protective tariffs and war-stimulated price increases, suffered a major decrease in output. Of the total agricultural output less than 2 per cent is by import-competing

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[25]Humphrey, American Imports, pp. 460-461.

producers in this category of producers "needing protection." Yet, protected as they are, they have not been able to satisfy demand.

Another group of commodities imported in direct competition with American crops is one in which domestic producers are capable of satisfying total American demand. Dairy products, butter and cheese, are the major commodities in this category. Yet it is not our imports of butter that hurt dairymen most; it is domestically produced margarine. Most other agricultural crops are ones that sell at world prices without protection or else are selling above world price because of domestic support programs.[26] According to Trenton,

> "... less than ten per cent of farm income is earned with products in need of protection against competing or supplementary imports. More than half our farm population depends on exports. Their real interests ride with the advance of free trade abroad and the abolishing of quota restrictions discriminating against our agricultural products. But their policy statements have favored protection born from fear of the repercussions free trade might exert on our domestic price support program."[27]

It appears that import restrictions are a product, for the most part, of the domestic support programs. This relationship means that inefficiencies shielded by protection can be traced to the need of protecting the support programs more often than to the need of protecting domestic producers from importers.

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[26] R. W. Trenton, "The Farmer's Stake in our Foreign Policy," The Southern Economic Journal, XX (April 1954), pp. 335-338. See also, Halcraw, op. cit., pp. 236-239, his coverage of the problem is not as detailed as Trenton's but the findings are similar.

[27] Ibid., p. 339.

Exports of Hand-Intensive Commodities

Tobacco, one of the heaviest users of hand labor, is and has historically been one of America's major exports. The government price support level is the price determining factor since tobacco growers must sell to buyers from an oligopsonized industry. Tobacco buyers for the large tobacco firms usually have from two to three years' supply on hand, and this puts the tobacco producer in an unfavorable bargaining position. Since the institution of the tobacco support program, producers have had the choice of selling to a bidder at the auction or turning it over to the government under loan. The loan rate is fixed at 90 per cent of parity for most tobacco.

Tobacco is a commodity with an efficiency of production that is difficult to compare by using productive factor cost structures between nations. Although tobacco production in the United States uses as much hand labor as in any other nation, there is no ground for comparison based on capital-labor efficiency. It seems that tobacco quality depends much upon soil and climatic conditions. Thigpen maintains that the comparative advantage for various differing types of tobacco is dependent not upon the economic use of labor or capital but upon soil, climate, and physical conditions affecting the tobacco plant.[28] "Movement of United States tobacco into foreign markets since colonial days reflects a definite comparative advantage in terms of soil and climate. ... This Comparative advantage differs among the classes and types of tobacco."[29]

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[28] J. E. Thigpen, op. cit., pp. 818-819.

[29] Ibid., p. 819.

The export market for tobacco seems to be controlled more by the ability of buying nations to obtain dollar exchange than by ability of other areas to produce an acceptable or competitive substitute. The soil and climatic conditions are held to be the dominating factor in the production of tobacco. If they were allowed to be the dominating factor, American production of this crop, which makes such large demands upon scarce labor, would not be penalized. However, the labor problem of the producers of tobacco is not presently acute, because tobacco is produced in areas where there is now a great deal of underemployment of labor. The problem to be solved in order to increase exports seems to be that of getting more dollar exchange into the hands of would-be foreign consumers.

The consumer demand for American tobacco in foreign countries has led to black-market operations when dollars were hard to obtain. Governments generally allocate foreign exchange for tobacco because of the great demand for American tobacco and the ease of taxing tobacco sales.[30] Total export has been consistently high since World War II despite the loss of Oriental markets, despite the demand for production machinery and the short supply of dollars in many would-be import nations. The British have been reluctant to purchase as much tobacco as they would like because of the restriction that at least 50 per cent must be shiped in United States bottoms as required by Public Law 480 for govern-

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[30]Edwin D. White, Deputy Director, Office of Food and Agriculture, Foreign Operations Administration, A Statement in the hearings before the Committee on Agriculture and Forestry, DISPOSAL OF AGRICULTURAL SURPLUSES, United States Senate, 84th Congress, Washington, D. C., (1955), p. 310.

ment-owned commodities that are declared surplus.[31]

France in the early post-war years, although favoring United States tobacco, was forced to limit purchases of American tobacco, which was less costly than French tobacco. The reason for such curtailment was lack of dollars.[32] France produces several items used in the United States that, in 1953, carried relatively high duties. Ethyl alcohol had a duty of 7 1/2 cents per gallon. Earthenware and chinaware had an ad valorem rate of 67 per cent on lower-priced ware. Automobiles had a 10 per cent ad valorem duty, wines had duties of 24 per cent for champagne, and 15 per cent for still wines. Woolens and worsteds had an ad valorem equivalent rate of 33 per cent; rayon yarn, 29 per cent; and leather gloves, from 25 to 74 per cent. These imports among others from France are items that would have increased from moderately to substantially if the protective tariff were to have been removed.[33] Earthenware, wines, woolens, and leather gloves, as produced in France, are hand-intensive. The United States is not capable of producing such commodities as efficiently as does France by hand-intensive methods. This results from the more productive uses for labor in the capital-intensive industries. Yet the high level of duties on the commodities mentioned prevented needed dollar exchange going to France. American consumers were forced to purchase a domestic product or pay a higher price if they insisted on the import.

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[31]Gustave Burmeister, Assistant Administrator for Market Development, United States Department of Agriculture, A Statement in the hearings before the Committee on Agriculture and Forestry, DISPOSAL OF AGRICULTURAL SURPLUSES, United States Senate, 84th Congress, Washington, D. C., (1955), pp. 352-353.

[32]Thigpen, op. cit., p. 822.

[33]Piquet, op. cit., passim.

During the period when Americans were prevented from buying French imports of hand-intensive commodities that they as consumers wanted, France was unable to obtain the dollar exchange that she needed in order to make purchases of tobacco.

Before the exclusion of free entry into world markets a a competitive level United States cotton production had captured most of the world's cotton market. After the Civil War, hand-intensive cultivation appears to have been efficient in the South, which had become a backward area. Cotton production under the plantation system used only one white to each eight colored workers. By 1867, 40 per cent of the production was by white field hands. The desire of whites who had been unable to own land under the slave plantation system, and of ex-slaves to own their own farms led to the creation of many new small farms.[34] With little atlernative to producing the cash crop of cotton, monoculture continued with an increase in small family operated farms. It was not until underemployment began to be affected by war shortages for labor and the increasing industrialization in the South that the small hand-intensive farms began to feel the competition of mechanized cotton production. With continued mechanization, labor saving production methods, and alternative outlets for use of labor, hand-intensive cotton culture will undoubtedly continue to decrease relative to mechanized production.

Fruit exports are much smaller now than before World War II, although in Table V vegetables and fruit are revealed as being among those industries with high returns. Citrus fruits have been the center of controversy, and the problems faced by grapefruit growers were

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[34]Street, op. cit., pp. 18-19.

brought to the attention of Congress. The plight of grapefruit growers was pointed out as the need for special aid. Some of the reasons for the loss of grapefruit exports were discussed at the recent Senate Committee hearings on Disposal of Agricultural Surpluses.

In the recent hearings Senator Holland of Florida points out that grapefruit has not been declared surplus and therefore is not eligible for government aid under Public Law 480, which deals with the disposal of "surpluses". He further shows the "absurdity" of the British position of protecting Jamaican grapefruit production by other than incentive methods when Jamaica is able to furnish only a small fraction of Britian's needs.[35] He also points out that Israeli citrus producers are selling grapefruit to European marketing organizations on a consignment basis with no assurance of pay, if those receiving Israeli fruit agree not to trade in American grapefruit. This the Senator intimates is unfair competition especially in the light of the fact that Israel is receiving American aid.[36]

The Jamaican grapefruit industry was fostered by the British to save badly needed dollar exchange during and shortly after World War II, and today the position of grapefruit production in Jamaica is vulnerable to competition from American producers. Jamaica furnishes about one-fourth as much canned, and about the same amount of fresh grapefruit to England that the United States furnished before the war.

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[35]The Senator is condemning the British for a program which is very similar to the one our wool producers had demanded in this country before incentive payments were used.

[36]Senator S. L. Holland, Hearings before the Committee on Agriculture and Forestry, DISPOSAL OF AGRICULTURAL SURPLUSES, United States Senate, 84th Congress, Washington, D. C., (1955), p. 298-299.

The Foreign Operations Administration offered Britain loans for purchase of American citrus fruit; yet the British refused to purchase the fruit, although earlier shipments had been made under FOA and the Mutual Security Act. The British have felt that loans should be used for commodities and goods more beneficial to their economic recovery than fruit, which they consider as a luxury item.[37]

The imports of apples, prunes, pears, cherries, and other fruit are considered as luxury items by nations that are attempting to recover from the war and increase their productive capacity. Although these crops appear able to compete favorably with other users of resources in productivity returns, nations with shortages of dollars are apt to allocate what they have for items they do not consider to be in the luxury category. The difference between the export positions of fruit and tobacco would appear to be in the demand elasticity of the importing nations. Tobacco seems to be an item which many nations refuse to do without, while fruit often will not be allowed to command dollars that are in short supply. The way to increase exports of "so called" luxury items would appear to be in the direction of an increase of dollar exchange in the hands of potential importers.

As the use of capital-intensive production methods in the United States increases, making hand-intensive commodities less attractive in the export pattern, there is the likelihood of an increased competition for markets once held by American producers of many types of fruit. Senator Holland emphasized that point when he referred to the inroads that Israel has made in the European grapefruit market. Much of the

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[37] Ibid., pp. 298-307. Edwin D. White of the Office of Food and Agriculture, Foreign Operations Administration, answers to Senator S. L. Holland.

fruit production in the United States takes place in areas which have often experienced over-full employment. For this reason alternative uses for labor very often necessitate higher agricultural costs. In the Pacific Northwest many orchards have been abandoned and owners have gone to work in lumbering and other basic industries, using their fruit and vegetable farms as merely a rural residence or as a means of supplementing industrial incomes.

Alternatives for Hand-Intensive Producers

If hand-intensive commodities are to find themselves excluded from export markets or displaced by imports, a question of alternative uses for their resources will arise. The first step in a solution of this problem, as in the solution of any part of the farm problem, is to maintain a high national level of income and employment so that alternative uses will be available for resources no longer needed when exports are lost or when imports replace domestic production. Next would be the need for aiding marginal producers in the reorientation of their factors of production. This reorientation would include such alternatives as labor entering industry, land going into more economical size units for capital utilization, placing land into range, forestry or recreational pursuits, or "mothballing" land for emergency uses.

Industrial Employment: Possibilities and Limitations

To aid industry help rid agricultural pursuits of under-employment by continued operation at near full employment trade barriers could be reduced during a period, such as 1956-1957, when many industries were suffering from over-full employment. There would be a much better chance of displaced agricultural labor finding employment in industry

during periods of high industrial activity. If trade barriers are to be reduced on imports at a time of general economic disorder, the producers of protected crops will find themselves worse off with little or no alternative employment possibility.

Although labor tends to be immobile because of the lack of certain needed skills in certain productive processes, location factors, inadequate knowledge of job opportunities and other reasons, there will be a greater inclination on the part of industrial employers to hire unskilled labor when there is a labor shortage. The most rapid exodus from farming takes place during periods of prosperity, although the differences between farm income and industrial income are greater in depressed periods than in periods of prosperity.[38] In 1910, when total population was 92 million, our farm population was 32 million. This dropped to 31 million during the prosperity period of the 1920's, but it increased to 32 million during the depression of the 1930's. By 1954, during the post-war period of prosperity, the farm population had dropped to 22 million, while total population had grown to 162 million. The farm population in 1954 was considered to be 13.5 per cent of total population.[39] Table XIV shows the relationship of total population to farm population for selected years. According to Black, this trend away from the farm is apt to continue for a number of years. He foresees a farm labor force of around 5 million by 1975. This is considerably less than the 6.6 million figure for 1955.[40]

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[38] Agricultural Outlook Charts 1956, op. cit., Tables 102, 103, p. 86.

[39] Family Farms in a Changing Economy, op. cit., pp. 8-10.

[40] Black, "Agriculture in the Nation's Economy," op. cit., p. 17.

TABLE XIV

UNITED STATES TOTAL POPULATION;
FARM POPULATION SELECTED YEARS

Year	Population Millions		Farm as per cent of Total
	Total	Farm	
1910	92	32	34.8
1920	107	32	29.9
1925	115	31	26.9
1930	123	31	23.6
1935	127	32	25.2
1940	132	31	23.5
1945	140	25	17.8
1950	152	25	16.4
1954	162	22	13.5

SOURCE: Family Farms in a Changing Economy, Agricultural Research Service, USDA (Washington, D. C., March 1957), Table 1, page 8, from Statistical data compiled by the Bureau of the Census.

The period of rapid farm-to-city movement following World War II, as shown in Table XIV, has taken place in spite of protection for domestic producers against imports, along with the use of export subsidies, and with domestic price support programs designed to help solve the low farm-income problem. Instead of measures which announce as their intent a fair share of the nation's wealth to farmers so that farmers' income will be adequate, policy would probably be more compatible with higher national living standards if the over-full employment conditions with which industry is often faced were eased with the under-employed factors in agriculture. Resources remaining in agriculture would then have fewer claimants for the returns from agricultural produce which so frequently faces a relatively inelastic demand situation. Resources leaving agriculture would generally be more productive in industry. The over-supply of farm labor has not been adequately encouraged in

an attempt to transfer to industry. Emphasis by policy makers has been placed on supporting prices and restricting imports rather than on subsidizing a transfer from agriculture. It seems that such transfers of the factors could be encouraged, as an agricultural objective, as easily as any other objective of an agricultural program although opposition may arise from sources such as labor unions.

An alternative solution, for farmers who are under-employed, to that of giving up their homestead and their inadequate income in order to pursue industrial employment in a city, is to have them take industrial jobs within commuting distance. This trend actually is increasing, particularly in the South, because of the increasing industrial activity in that area. In this manner many under-employed farmers have become full-time industrial workers and part-time farmers. Reluctance to leave land that is owned is not encountered when it is possible to live on the land and commute to one's work.

Specialization in Forest, Range, Recreation, and Capital-Intensive Crops

Other possible objectives of a continued protection of hand-intensive industry—at least as far as the under-employed farmer is concerned—may be found in reorienting the land to other crops or to other than hand-intensive uses. If reallocation is not too greatly hindered by government policy in the form of price supports and acreage quotas, land and labor can often become more productive in other pursuits. Grazing and forestry, for instance, are alternatives to cotton culture in much of the South. The Yazoo-Little Tallahatchie flood prevention project, cited earlier, is an example of government policy oriented toward solution of malallocation of resources rather than a perpetuation of those

conditions.[41] It would appear that tax money is more productively employed in such a project than in purchasing "surplus" commodities at stimulating price levels and dumping these commodities into foreign markets.

Watershed improvement and recreation areas may be an alternative use for submarginal farming enterprises if the ocst is borne by society. This method of conservation and shifting of resources is held to be one which depends upon government aid, since farmers cannot, by themselves, give up cash crop production in order to rehabilitate a watershed.[42]

Substitution of capital-intensive methods of production or a shift to the production of an alternative commodity may mean that a once hand-intensive commodity can become competitive with imports, or that resources will be shifted to a more productive commodity. A shift to capital-using productive methods normally demands larger farmsteads. A logical approach to the elimination of farms so small that for purposes of mechanization they are uneconomical, is to aid in consolidation. To consolidate small units into units large enough to mechanize profitably demands readily available sources of capital. An agency such as the Farm Credit Administration might be called upon for funds to aid in the consolidation and mechanization of units that are too small to mechanize singly and which lack the necessary funds.

Measures Looking Toward the Elimination of Inefficiency[43]

A large part of present farm protection is pointed toward the con-

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[41] Supra, p. 55.

[42] Rainer Schichele, Agricultural Policy (New York: McGraw-Hill Book Company, Inc., 1954), pp. 127-133.

[43] Here, as throughout this paper, inefficiency is considered to be the use of resources to produce goods whose total costs are more than costs would be for producing a given commodity by a different factor combination.

tinuation of inefficiency. The provisions of most price-support programs, import restrictions for protecting American producers, and export subsidies are, from the point of view of the analysis contained in this study, attempts to subsidize inefficiency through price manipulation.

Production and import control, commodity loan plans designed to increase prices, and surplus disposal operations must be discarded if comparative advantage is to be the directing force in the elimination of inefficiency. Agricultural programs which involve subsidized farming should be allowed to have only a minimum of influence on market price. In order to maximize efficiency in resource use and to allow the comparative advantage benefits to accrue from international trade, farm subsidy payments should be in the form of transfer payments outside of the price structure. Imports and exports should be free to move in accordance with those productive factor combinations which give producers an advantage in relationship to alternative uses.

To pave the way to an acceptable program for supporting incomes, not prices, consumers as well as farmers and their spokesmen should first be made to realize that price supporting actions are every bit as much of a subsidy payment from the government as would be a direct payment from the treasury for the difference between price times quantity sold, and the desired income support level.[44]

Any over-expansion of agricultural production because of war needs which has induced an uneconomic use of resources is a problem of such broad scope as to forbid its being treated as a farm problem. Farm spokesmen should not be permitted to dictate its solution. Instead, society should consider such over-expandion as a cost of the war and

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[44]Johnson, "Reconciling Agricultural and Foreign Trade Policies," pp. 570-571.

accept the responsibility of reallocating the resources to other uses. If wartime industrial investments deserve special consideration by the government, it seems only fair that agriculture should be equally well treated.

Summary

The returns from production of hand-intensive commodities, which must compete with imports from nations having abundant labor reserves, are generally too low for the level of living that Americans desire. The chief reason for such low returns is to be found in the relative scarcity of labor and its low rate of productivity as compared with the productivity of labor supplemented by capital. The opportunity costs for labor are so high in the American economy that production of hand-intensive commodities, which are capable of being produced in areas of abundant labor resources, must depend upon protection or see imports undersell them in the American market.

If the production of a commodity is inefficient because of its demands for large amounts of labor, it may yet be permitted to continue, if imports are excluded. When an efficient method is discovered for producing such a commodity and when part of the production becomes efficient, the returns will continue at the same protected level because of the single price aspect of marketing, and because the land will receive the increased returns through capitalization. Once land is so capitalized at the protected price level, the gains of efficiency are lost and protection must continue.

Labor returns are often more likely to be determined by institutionalized or acceptable levels of living rather than by productivity. If imports of hand-intensive commodities are allowed to increase, those

receiving dollar exchange would be capable of purchasing more American exports. Most American exports are capital-intensive and therefore more productive in man-hour returns than imports. Labor in rural areas will suffer lower returns because of the loss of the import-competing crops sales. Industrial production will tend to become more fully or over-fully employed and will accordingly reap higher returns. With greater demand for workers in industry, wage levels tend to rise. Yet, even though manpower is marked by great immobility, the unemployed and under-employed rural workers tend to shift to better-paying industrial jobs when such jobs are available. And those jobs are being made increasingly available to the "commuter" type of worker who continues to maintain his residence on a farm.

The wage-rate argument for the protection of import-competing commodities is unsound. American producers are not competing with low wage rates paid in foreign nations; rather, they are competing against more efficient uses of labor in America. Protection does not raise the level of living; instead, by misallocating resources to less productive pursuits, it actually lowers the amount of total goods and services available for consumers.

Most hand-intensive import-competing commodities have met with increasing foreign competition or have had to depend upon trade restrictions to forestall such competition. Tobacco is an exception, but actually it is not an import-competing commodity. Tobacco imports are in the nature of specialty products not produced in this country. They supplement rather than compete with domestic production.

Only a small portion of farm production, about 10 per cent, needs

protection from foreign competition in order to retain its domestic market. Protection is demanded, however, for the purpose of making domestic price support programs tenable.

Our continued exports of hand-intensive commodities will depend considerably upon the importance foreign importers place upon them. As the relative cost of such hand-intensive production methods increases because of technological advances in competing industries, these commodities will increasingly become a poorer buy. Tobacco seems assured of continued quantities of exports because of an inelastic demand for the American product. Our fruit exports, however, seem to depend on increases in the amount of dollar exchange in the hands of other countries. The longer the "dollar shortage" continues, the greater will be the inroads of competitive sources for this market.

It seems reasonable to maintain that dependence should be put on finding other uses for labor rather than on more protection aiming at a continuation of misuse of labor resources. Full employment should be maintained, if possible, for the purpose of stimulating movements of labor from areas of under-employment to more productive pursuits. Such movements of under-employed resources should be fostered rather than hindered. Much of present agricultural policy, however, appears to contemplate a continuation of the malallocation of resources. If farm incomes are to be bolstered, the procedures looking toward that objective should take place outside of the pricing mechanism. Tampering with prices upsets normal trade relations and perpetuates rather than mitigates the over-allocation of resources to agriculture.

CHAPTER VI

EXAMINATION OF PROPOSED POLICY AS TO TRADE REGULATIONS AFFECTING AGRICULTURE

This chapter proposes that many of the factors of production used in agriculture should be re-oriented within agriculture and other factors transfered from agricultural pursuits if agricultural production is to receive returns generally comparable with the returns to other industries. The need to permit increases of imports, including those that compete with agricultural commodities produced domestically, is also asserted. It is further proposed that society, which would benefit from the above changes, should furnish assistance to those financially unable to make the needed shifts. In addition, this chapter includes a discussion of price support programs, as some students of the subject declare present price support administration to be one of the factors necessitating import restrictions. Furthermore, price support legislation is often alleged to be a factor that could lead to dumping.

Before examining any proposals, and lest the reader is to assume that the writer is postulating the tenets of classicism, it is necessary, at this point, to indicate some of the difficulties that must be faced in any attempt to use policy as a means of better utilizing scarce resources. The various hearings, before both the House and the Senate, that have dealt with agriculture and trade in the past few years, have all been confronted with numerous spokesmen presenting evidence of the lack of freedom of price determination in the world markets. The USDA has recently compiled a digest of agricultural policies of foreign governments which includes trade policies affecting agriculture. A cursory

study of this pamphlet leads one to suspect that the commodity entering world trade is rare indeed, if it does not come under some sort of regulation. And this regulation generally emits from both the shipping nation as well as the one receiving the commodity.[1]

With all other nations practicing regulation, is it not therefore mandatory that the United States also maintain tight reigns on such agricultural commodities as enter or leave this nation? This is a persuasive argument which is often used, and it is an argument that appears to have merit when one considers the doctrine of "an eye for an eye." However, when one examines the reasons for such regulations on the part of foreign nations, and the reasons for United States regulations, as well as the effects that such regulations have, perhaps it would be better to forego retaliation.

Most of the under-developed nations of the world, which largely produce primary products, stress increased agricultural production in order to better their diet, to provide raw material for whatever industry they have, and to increase exports.[2] They generally have a very limited number of export items with which to pay for desired capital goods. They do have, in most instances, some agricultural commodities that they can

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[1] Agricultural Handbook No. 132, Agricultural Policies of Foreign Governments, USDA op. cit. This Pamphlet is the latest in a series that have been published, starting in 1932, and dealing with this subject. Government intervention in agriculture is seemingly standard practice throughout the world. Foreign trade regulation with the use of internal market regulations is a common policy tool of most nations. There is little doubt that these regulations seriously curtail the operation of the law of supply and demand, and, thereby, greatly influence the allocation of resources.

[2] Ibid., p. 1.

sell to obtain needed foreign exchange. In addition, they usually are able to furnish enough food for their own use. It is, therefore, not surprising that most underdeveloped nations, with a factor combination of relative abundant labor and land as most such nations have, subsidize exports of agricultural commodities and restrict such imports.

On the other hand, higher income, industrialized countries, mainly those of Western Europe, attempt basically to increase the relatively low income level of their farm population which has no industrial alternative comparable to America. Another reason for regulation is to maintain food production as a national security goal.[3] Thus, the social goal of maintaining prosperous, or, at least, less miserable small farmsteads, that prompts regulation in industrialized countries is not primarily an attempt to expand farming, but an attempt to stabilize the rural society at a level of living that somewhere nearly approaches the industrial standard. This is the reason most often given for such regulation in the United States. The differences in factor combinations, economically speaking, are a reason why actions that may be permissible in one nation make economic nonsense in another. The United States, at the present time, is the major nation having a relatively hard money which is desperately in demand by nearly all other nations. The implication is, of course, that all nations want more United States goods than the United States wants of other rations. And were this demand to be satisfied, more productive capacity than the United States has would be needed to fill the wants. This would call for the shifting of more resources into export production. Perhaps then, the United States, at this time, is the lone major nation capable of reducing regulation, or,

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[3] Ibid., pp. 1-2.

at least, is in the best position to continue the sustained effort toward increased multilateralism.[4]

Proposed Measures for Supporting the American Scale of Living

If the United States is to maintain a large export trade, and if the agricultural segment of our economy is to continue as an important beneficiary of our agricultural exports, there are two major alternative courses open. We can continue to export commodities to foreign areas and pay for the exports with federal appropriations, or we can export the commodities others want and make it easier for them to pay. In this instance, to pay means allowing imports of products into the United States. The latter choice would be less costly to taxpayers and would permit a higher standard of living manifest by more goods and services for the consumers.[5]

Any attempt to make it easier for other nations to pay the United States entails a trade program which will encourage imports. There has been a sustained effort since 1934 on the part of the national administration under both Democrats and Republicans to lower trade barriers. Nevertheless, there still remain sizeable hurdles to importation of many items such as industrial, manufactured, and farm products. The importer continues to be plagued by tariffs, quotas, and standard trade restrictions. In addition, among the most effective barriers to payment for United States exports is the confusion that archaic tariff regulations and red tape pose for would-be importers. These regulations entail the use of complicated nonstandardized forms, haphazard procedures, arbitrary

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[4]F. V. Meyer, "Complementarity and the Lowering of Tariffs," The American Economic Review, XLVI (June 1956), pp. 323-335.

[5]Halcraw, op. cit., pp. 237, 252-253.

valuations, delays, special taxes, confusing classification methods, and other nuisances, and these trade restrictions often multiply the protective effects of tariff duties. Student in the field refer to this sort of protection as the invisible tariff.

Any policy that is instituted by society in order to support a high standard of living must be considered in the light of such policy's effect upon all facets of society. Any such policy that increases the standing of a certain group at the expense of other groups is not aiding society as a whole, if the total of goods and services remains the same. Such policy, if it increases the standing of a certain group, while hurting other groups and indeed lowering the total of goods and services, is by no means an economically acceptable policy. Furthermore, any policy instituted to help a specific group, but which has been shown to offer very little aid to most of that group, is reprehensible. It is all too likely to throw the burden of support of that policy upon society as a whole and to result in a demonstrably lowered standard of living than otherwise could be obtained. Because any support measures for agricultural groups are bound to affect society as a whole, such policy must be considered in the light of its totality.

According to Black, and based upon his use of USDA and Bureau of Labor Statistics data of 1954, agriculture engages approximately 6 per cent of the labor force, uses 12 per cent of the tangible productive assets, yet turns out only 4 per cent of the nation's gross national product.[6] Since 1910, the index of farm output has roughly kept pace with population growth. Nevertheless, total farm hours of work have decreased by over 30 per cent, and farm population has decreased from

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[6]Black, "Agriculture in the Nation's Economy," p. 21.

around 30 per cent of the nation's total to about 13 per cent.[7]

The absolute position of agriculture, economically speaking, has not deteriorated. In fact, on a long-run basis the year of 1950 showed the agriculture growth pattern to be keeping up with population growth. The farm price index in 1950 was 253 compared to 189 for the wholesale price index based on the year 1900. However, 1955 does show that farm prices had dropped to 205 while wholesale price index had advanced to 212. During the time that national wealth was increasing from a base of 100 to 257 (1900 to 1950) total farm assets had grown from 100 to 270. The weighted average of agricultural, manufacturing and mining production and construction had risen to 230, or a full 40 points below agriculture.[8]

This national income analysis as well as the individual farmstead and farm class information provided by the census of agriculture indicate that agriculture as such is now in no more need of special consideration than it was in 1900. Notice, however, must be taken of the case of seasonal crop variation due to weather uncertainties over which the farmer has no control. Also, it must be remembered that farm incomes, although maintaining their relative income ranking, started at a level much lower than the remainder of the economy. This lower relative income position is a reflection of excess resources dedicated to agriculture.

Agricultural and trade policy should be reoriented in such a

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[7]Agricultural Outlook Charts 1956, op. cit., passim.

[8]Aryness Joy Wickens, "Changing Prices and Values in the First half of the Twentieth Century," American Economic Review, Papers and Proceedings, XLVI No. 2 (May 1956), 70-75, Table 1, 72.

manner that agricultural exports capable of selling competitively in the world markets will not be hampered. In addition, imports of commodities should not be excluded to maintain production of very high cost hand-intensive crops. The commitment of 12 per cent of the tangible assets and 6 per cent of the nation's labor force to the production of 4 per cent of the nation's gross national product would seem to indicate the need for major resource reallocation. The chronic income disparity within agriculture further indicates a need for policy reorientation.

To this it should be added that society, because it will benefit thereby in the long run, should incur the immediate costs of reorientation. The low income group of farmers, who are not contributing their share to the economy's growth and who have no possibility of so doing if they remain in agriculture, pose a problem which should be solved by society. The educational and training levels of low-income farm groups are such that those groups are unable to return adequate income levels on the farm. In addition, without further training their income level potential will also be low in industry.[9] Some of the various roads that policy could take in order to support the society's level of living will be presented in the following sections.

Allow an Increase of Imports Whenever Demand Increases for Supported Crops

It is not easy to convince any group that society will be better off by any proposed lessening of import restrictions that will not benefit them. Or, if such a group is cognizant of such knowledge, they, as in-

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[9]Geoffrey S. Shepherd, Agricultural Price and Income Policy (Third Edition, Ames, Iowa: The Iowa State College Press, 1952), Ch. 19, Agricultural Incomes Can Be Made Comparable With Incomes For Equal Ability In Other Lines, pp. 266-275.

dividuals, are more interested in their own loss than in any gain to society. Any proposal to ease import restrictions will immediately bring forth the wrath of a few, very vocal, very persistent groups with vested interests in the continuation of present controls. In retrospect, Milton, during the later 1600's in his work Areopagitica, and John Stuart Mill, in 1859 in the On Liberty, both noted the influence a small vocal group could have on society under a democratic political system.[10] Usually when a few are loud enough and persistent enough they inflict their wills on the majority who are generally passive and take little personal interest. With this in mind, opposition to any policy advocating increases in imports must be anticipated, and the benefits to society that will accrue from such policy must be spelled out and presented as the need for adopting such policy. The long-run benefits for those under-employed resources in agriculture, after re-allocation, should also be noted. Agricultural policy has been and is oriented toward the goal of isolating domestic prices from world prices. With this in mind, one way to start reversing the trend of protection for commodities that are unable to compete against foreign imports would be to allow increased amounts to be imported whenever domestic demand is increased. Whenever the domestic consumption trend is increasing, the added demand should be satisfied with imports. This would not solve the problem of present misuse of resources, but it would prevent any additional resources entering the production of a crop which is unable to compete on its own merits.

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[10]Paul Robert Lieder et. al. editors, British Poetry and Prose, Revised Edition Vol. two (Boston: Houghton Mifflin Co., 1938), pp. 475-477.

If such a policy were instituted so as to permit the satisfaction of increased demands from imports, there would be a gradual increase in foreign exchange available to these nations that took advantage of this expanding market for imports. As the foreign exchange derived from this expanded market became available to make purchases of goods and services produced in and by the United States, there would be a natural shift of productive factors to export production.[11]

One merit of this gradual increase of imports is that there would be no sudden increase of unabsorbable factors, mainly labor, thrown upon society. Many of the lower income, marginal operators that would be eliminated from crop production would, under this plan, have time to be trained for assimulation into other economic pursuits. Domestic consumption levels would gradually rise as under utilized resources, now in agriculture, shift to other uses. If the labor and capital that Black indicates is unproductively employed in agriculture[12] were to produce as much as in non-agricultural pursuits it would mean between $8 and $12 billion added to G. N. P. at 1957 price levels. This is over twice the amount given as U.S. foreign aid in 1957. In addition, the factors remaining in agriculture would each receive a large portion of agriculture's share of G. N. P. This total share might even be larger with increased national productivity and increased consumption due to the addition of resources in non-agricultural pursuits.

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[11]Lorie Tarshis, Introduction to International Trade and Finance (New York: John Wiley and Sons, Inc., 1955), pp. 525-527.

[12]Black, "Agriculture in the Nations Economy," p. 21.

Gradual Reduction of Restrictions as Industry Absorbs Farm Resources

This would be much like the above proposal. The difference would be that a set period of time would be announced in which a gradual decreasing of trade restrictions would eventually eliminate such restraints. With a long range program of restriction elimination, assurances of near-full employment would be required. A schedule of restriction reductions would, during times of recession, force factors from agriculture when society offered no alternative. Here, as in the first proposal, society would benefit. Accordingly, the costs of reorienting resources should be borne by society. Workers must be trained or they will be little better off in non-agricultural pursuits than if they had remained in agriculture.

Texts in the principles of economics often define full employment somewhat like this: A nation has reached full employment when it is satisfied with the performance of the economy, and those factors are employed which are seeking employment at the socially acceptable level of return.[13] Such an ambiguous definition does not take into consideration the varying degrees of employment in the different economic endeavors. While some segments are under-utilizing resources, others find it hard to obtain enough resources to satisfy their demand. For this reason, a sustained effort to maintain a semblance of full employment and continued aid in transferring to other vocations those desiring to leave agriculture, the under-employed segment of the economy, would be the best method of solving the problem of too many resources allocated to agricultural production. In addition to needing full employment, the artificiality

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[13]David McCord Wright, A Key to Modern Economics (New York: The MacMillan Company, 1954), p. 168.

of prices under support plans would have to be remedied to allow either of these two plans to work. Any price support plan, as has been shown earlier in this paper, encompassing support at above the world price, needs import restrictions in addition to marketing controls and acreage restrictions. If domestic producers are to be subsidized, they should be forced to receive such subsidy outside of the market pricing mechanism. Whatever subsidies are maintained, should be for programs such as disaster relief, crop failure, agricultural financing, and for training and assistance to those leaving agriculture.

Give Assurances to Importers and Lessen Import "red tape"

The "red tape" items of United States Customs Operation are probably as effective at restricting imports as are tariffs, licensing and quotas. Any study into ways of increasing dollar earnings of would-be customers of America's farm producers must go beyond the tariff. A recent survey was made of 336 United States' firms and the impediments to their private foreign investments. In many instances the impediments were of the same sort that domestic exporters of agricultural crops would be faced with, including prominently those connected with "invisible tariffs". Trade barriers other than tariffs that were specifically mentioned by one or more firms are: import quotas, customs policies and administration, the Buy American Act, the requirement for shipping in American vessels, price controls or "any artificial control," international materials control plan, and United States immigration laws and restrictions.[14]

The administrations have, since 1934, attempted to reduce for the most part, restrictions to foreign trade by such programs as the recip-

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[14]Bureau of Foreign Commerce, Factors Limiting United States Investment Abroad, Part 2, Business Views on the United States Government's Role, United States Department of Commerce (Washington, D. C.: United States Government Printing Office, 1954), pp. 12-13.

rocal trade agreements and the General Agreement on Tariffs and Trade. Often such effort has been confronted by strong sentiment on the part of pressure blocs attempting to influence certain elements of Congress to thwart such programs. Also, when an attempt was made in 1956 to simplify the customs regulations, there was such strong opposition that a modified compromise was finally accepted. During the period that the Senate Finance Committee was doing research for the formulation of this legislation, spokesmen for numerous firms and many consultants were questioned in the committee hearings. When the finished product of these hearings, known as the Customs Simplification bill, was signed in August 1956, it had lost much of its meaning through compromises. The original purpose was to formulate a single base for tariff on imports. That is, instead of using the wholesale price in the exporting nation or the import wholesale price, whichever was higher, this bill would have made the import wholesale price the tariff base. This act would have given foreign exporters a good deal more assurance in the way of tariff rates to be expected, eliminating the difficulty of basing the rate on foreign market values calculated in terms of a multitude of exchange rates. Finally, a compromise three-year trial plan was considered, with both standards to be used, thus postponing a decision for three years. The bill, as finally passed, was signed into law August 2, 1956, but it would be permitted to apply only if the tariff on the import value was such as to show less than a 5 per cent decrease in tariff rates.[15]

The compromise, which was an attempt to end delays entailed by long investigations to determine foreign value or export value, so complicated

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[15] The New York Times, August 3, 1956, p. 23, column 1.

the immediate procedure that little benefit was obtained. The three-year trial period was dropped, but the treasury was required to determine average value for 1954, placing on a new preliminary list items that would show a 5 or more per cent higher appraisal than they would have shown under the new system. Items on this preliminary list, when finalized, would continue to be appraised under the old system and other items would be appraised under the new and simpler system.[16]

Eventually this compromise bill will aid in the simplification of tariff rate understanding. However, during the years of needed research, uncertainties will exist and the treasury department will be forced to spend time and money in determining which items will be simplified and which will continue under the old system. Even when this job is completed, only a fraction of the "invisible tariff" will have been dealt with. Any further attempt to simplify any one of the many remaining barriers will be confronted with a very determined effort to prevent such changes.

As American tariff law grew through the various acts which culminated in the Hawley-Smoot Act of 1930, American protection grew multifold through growth of the "invisible tariff." The reciprocal trade acts have reduced visible restrictions to trade, but attempts to eliminate the administrative red tape has not met with the same success. Although customs administrative laws and decisions are usually not deliberately formulated to discourage imports, they often have that result. A customs lawyer is often as necessary for the importer as the ship to transport the goods. Some of the costs that an importer often must bear are: customs lawyer's fees, premiums on bonds, litigation costs, and costs which

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[16] The New York Times, August 12, 1956, Section 3, p. 1, column 1.

result from delay in appraisement for duty.[17]

The unwillingness of Congress to face up to the responsibility of formulating positive control over imports has done much to bring about the transfer of tariff-making powers to the executive. Thus the tariff commission has gained authority through Congressional default, and the President is able to use the commission as a fact-finding board on which he bases his rate-making and tariff-bargaining powers. These powers were granted in 1922 when Congress conferred on the President rate-making authority, and in 1934 the trade agreements act gave him tariff-bargaining power.[18]

Protected interests continue to appeal to congressmen to amend or repeal or allow the trade agreements acts to expire. Economic sanctions and the placating of interest groups are easily accomplished by the administrative action which can be incorporated in tariff acts. Much of the President's rate-making and tariff bargaining ability are lost by such actions. In addition, the fear of sudden import policy reversal, such as ending the trade agreements or by escape clause action, tends to weaken the desire of many foreign export producers to develop American markets. The refusal of Congress to extend the trade agreement legislation, which they must do periodically, would prove to be a catastrophic blow to many foreign firms selling in the American market.

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[17]Percy W. Bidwell, The Invisible Tariff (New York: Council on Foreign Relations, 1939), pp. 2-8. Bidwell states that administrative measures are far more comprehensive than visible tariff, since they affect goods on the free list as well as goods which are dutiable. He further states that the complexity of tariff schedules grew out of attempts to stop seepage of illegal imports and some regulations appear to be devised to make it as difficult as possible for importers.

[18]Ibid., pp. 12-13.

It would appear that Congress, which has refused to accept responsibility for tariff administration, is unwilling to allow the executive branch to which they have defaulted, a free hand. Without the ability needed to assure a continuous import policy, the administration is seriously hampered in any attempt to increase imports. Free world marketing and production patterns in many countries are based much less on a mass market concept than they are in America. No firm, which is unsure that it will be allowed to remain in a market that it could develop by changing production and marketing methods, is apt to gamble millions of dollars which would be a total loss if that market were closed. As long as customs regulations remain on an uncertain basis from year to year, there will continue to be reluctance on the part of foreign firms to gear production fully for the American market. Imports will, in many instances, be an adjunct to domestic production in the export nation. Thus, the malallocation of resources needed to produce hand-intensive products in America is not permitted to readjust smoothly. Producers in foreign nations are not secure in any attempt to gear their operations toward securing the dollar exchange their countries so sorely need.

In order to secure more hand-intensive imports in exchange for American capital and land-intensive exports, it is imperative that American customs procedures be simplified and made into a more stable instrument of United States international relations and policy. If domestic pressure groups are capable of drastically curtailing imports, the cost in level of living that such actions entail should be clearly pointed out to domestic consumers and taxpayers.

Methods of Minimizing or Eliminating Harm to United States Agriculture

Any attempt to solve poor allocation of resources within agriculture in order to increase the American scale of living should minimize any loss to those in agriculture who will be affected. Such policy should take into account both the short-run as well as the long-run effects. Several of the policy suggestions for aiding agriculture are largely outside the scope of this study, but they should be mentioned at this point. Johnson suggests a national food and fiber program to expand and stabilize the demand for agricultural products, forward pricing, and a storage program; all attempts to increase income stability. In addition, he mentions compensatory payments in a disaster relief role and a conversion program to ease the needed shift from agricultural production.[19]

An attempt to readjust the productive factors must take into account the under-employment in agriculture, particularly Southern agriculture. Unless an acceleration of resource shifting is accomplished, any increase of import competition will only increase the disparity in factor prices. At the present time under-employment of productive factors, which is greatest in the South, is attracting industry to that area. With an increase in imports there should come an even greater impetus for industry to move to such areas as the South, to furnish

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[19] Johnson, Trade and Agriculture, op. cit., pp. 187-188, 95-109. See also J. K. Galbraith, "Economic Preconceptions and Farm Policy," The American Economic Review XLIV (March 1954), pp. 40-43. Galbraith emphasizes the failure of present programs to help those it was designed to aid. He indicates that price policy does not appear to aid in better resource allocation and is oriented toward economic nationalism.

greater employment opportunities for under-employed resources.[20]

Some of the methods of assisting the shift of under-employed resources from import-competing crop production to export crop production or non-agricultural pursuits will be presented in the following sections.

"Ease out" Social Assistance Payments and Training to Rehabilitate Inefficient Producers[21]

Because society gains when the factors are producing maximum returns, public assistance in a more efficient allocation would have positive income effects. Marginal and submarginal use of productive factors in certain agricultural pursuits gives such low returns that these factors are of themselves unable to leave a given agricultural use and migrate to other crops or to non-agricultural utilization. Economically speaking, costly reallocation of resources is socially desirable.[22]

It has been shown that, in most instances, hand-intensive production gives the lowest return to the combined factors. Public policy should therefore generally be oriented toward shifting resources into capital-intensive pursuits and away from production of hand-intensive crops. Many of the low-income small-sized farmsteads should be made eligible for a "social assistance" rehabilitation program. Such a program might take the form of the Labor-Mobility-Assistance Loan program that was proposed

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[20]Gottfried Haberler, "The Theory of International Trade in a World of Trade Barriers and Controls and of Variegated National Economic Systems," American Economic Review, Papers and Proceedings, XLIV No. 2, May 1954, 556-557.

[21]Again the term "inefficient" is used to denote producers capable of greater returns if productive effort were used in different pursuits.

[22]See T. W. Schultz, Redirecting Farm Policy, Chapter 4, "Resources and Income," (New York: The MacMillan Company, 1943). Schultz shows that the farm income problem is more than one of farmers' income levels. The resource problem and effects to society occasioned by administrative decisions are of greater importance. In peacetime, distribution is of greater significance than production which receives most attention.

for Federal Housing Authority administration as a means of removing more than a million farm families from agriculture.[23]

In some instances the movement of factors from agriculture might well be coupled with farm consolidation, and in other instances with total abandonment of farm production. The Committee for Economic Development recommends a complete reorientation in the farm land retirement program. Whereas the soil bank permitted farmers to take land out of production in an attempt to reduce "surpluses," it did little actual good where aid was needed most. The small uneconomic, often submarginal farm received little or no assistance. The Committee for Economic Development proposes that entire farmsteads be taken into the program. It would retire an entire farm, not a portion of a farm, in the case of those farming in the lowest income brackets.[24] This actually would take little of the better land out of production, but it would make much labor available for non-farm use.

In order to take the less productive land out of production, the philosophy, often amplified by elections, of something for everybody should be changed to allow selectivity of land to be retired. Only that land which is unable to return reasonable income should be retired. Again, the farmsteads that such a plan would include would employ a large portion of the farm labor force, albeit the lowest income group. This kind of land retirement would make labor available for other use,

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[23]This proposal was suggested by the Columbia University Seminar on Rural Life in 1950 as reported by Leonard H. Schoff, A National Agriculture Policy (New York: Harper and Brothers, 1950) pp. 47-50, 134-135.

[24]CED, Toward A Realistic Farm Program, (New York: Committee for Economic Development, 1958), pp. 32-36.

but society would be responsible for preparing this labor to be profitably used. The low productivity of many low-income farmers would mean that such farmers would be forced onto relief or into low-income non-farm jobs if they were not trained to fit a more productive job classification. At the present time many of the under-employed southern farm workers drift into large northern cities and are not able to find employment in any except menial jobs. Even during booming prosperity, untrained, unskilled workers often have low incomes while industry is hard-pressed to obtain an adequate labor force.

Many of the operators of the million or more farms, that probably should be abandoned to land retirement, as well as many of the operators on small farms, that need to be consolidated if they are to become profitable, are old and can not be trained to take a different type of job. These persons could be permitted to remain on those farms earmarked to be retired from agricultural production until attrition remedies the situation. Younger operators on farms in need of consodidation are a

different problem. These could be aided in their attempt to expand or could be given social security type payments if they retire.

Payment to those retiring their land could be extended over a period of years or made in the form of rentals. As for the many who are not owners and who would get no land retirement payments, a training-on-the-job program of assistance like the G. I. training program following World War II would certainly make it easier to obtain jobs in non-agricultural industries. If full employment were maintained and the cost of training were not all borne by the employer, many of the under-employed agricultural laborers could readjust into far more productive positions. Those remaining on the land could improve their income status through consolidation and mechanization. Even for these persons, aid, to facilitate acquisition of land and machinery, should be made available by society.

Rural Development Program[25]

The Rural Development Program, as sponsored by the Eisenhower administration, is a step in the right direction in relieving some of the under-employment in "rural slum areas." So far, pilot projects are being carried on with 46 operations in 24 states. Cooperation is sought with state and local leaders. Emphasis is placed on industry training for youth and the enticement of industry to rural areas to make use of under-employed labor.

Although this program is being sponsored by the Department of

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[25]Rural Development Program, USDA, Office of Information, March, 1958, This information sheet shows how 62 pilot counties are now on a demonstration basis. The goal is to develop a program that strikes at the basic trouble instead of treating surface symptoms.

Agriculture, close cooperation is maintained with four other departments; Commerce; Labor; Health Education and Welfare; and Interior. The joint cooperation is maintained in order to have a balanced program which includes trade, industry, and education, in addition to better farming practices. The program holds much promise, for in the short period of its existence it appears to be working with and not against economic forces.[26]

The major objection, economically speaking, to the Rural Development Program seems to be that not enough emphasis is being placed on its progress. Possible mishandling of the project may come from very heavy reliance for direction of the prgorams on rural area leaders. Solution of problems encountered in the local rural area may depend on more than local judgments. In fact, it may demand state or even federal guidance. Most of the pilot plans have placed some emphasis on industrial opportunities and education, but this has been done mainly on the assumption of the local use of non-agricultural skills. More emphasis should be on interregional use of underemployed resources. Employment training and preparation, including knowledge of opportunities elsewhere, for industrial and service positions should be intensified.[27] Major emphasis should be placed on the attempt to make qualified labor more mobile.

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[26]Don Paarlberg, Assistant Secretary of Agriculture, "Status of the National Rural Development Program to Date," Journal of Farm Economics, No. 2, XXXIX (May 1957), 261-270.

[27]Raymond J. Penn, "Discussion: Status of the National Rural Development to Date," Journal of Farm Economics, No. 2, XXXIX (May 1957), 278-281.

Federal Aid to Rural High School Technical Training in Arts and Sciences

Because farm youth has a better chance to gravitate to non-farm jobs or to be trained to be profitably employed farmers than those with family responsibilities, the rural schools are a focal point for aid in any attempt to decrease the number of farmers with inadequate incomes. Studies have shown that farm youth have inferior school facilities. This limits the student's opportunity both on the farm and in competition with urban trained youth when seeking a non-farm position. For these reasons, improvement of educational opportunity becomes a fundamental objective of curative agricultural policy. This objective will need to be supported by local and state funds as well as federal funds.[28]

Because farm incomes are lower than non-farm incomes, schools in rural areas generally have less income to tax, this helps to account for less able teachers and poorer facilities. Because students in rural schools, in many instances, will leave the farm and even the farming area, and many need to if they are to become as economically productive citizens as possible, society as a whole has a stake in their education. The farm population reproduction rate is higher than the urban rate, and the excess farm population must seek urban employment. Education, therefore, of rural students is a cost which should be assumed by society, not just by the rural community.[29]

An informal study which has been continuing for several years, and which is being conducted by instructors in the Social Science Depart-

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[28]Halcrow, op. cit., p. 200.

[29]Theodore W. Schultz, Agriculture in an Unstable Economy (New York: McGraw-Hill Book Company, Inc., 1945), pp. 205-208.

ment at California State Polytechnic College, shows a bimodal distribution for agricultural students when compared with non-agricultural majors. The majority of the agricultural students come from rural areas, while the majority of non-agricultural students are from urban areas. A possible explanation for the much lower grade distribution to the agricultural students is the inferior preparatory training that many of the agricultural majors receive in the rural schools. Comparison can not be ended on this note, however, as the students that get to college level are the outstanding students and many rural youths drop out of school at a younger age than urban children.

Relative economic position is usually reflected in school expenditures. The attitude toward support of school facilities is less favorable in areas of lower income. Since expenditures indirectly measure education's quality, the low-income rural areas would be expected to produce persons least prepared to take a productive place in the economic and social order.[30]

The Morrill Act of 1862, giving aid to land grant colleges for agricultural training, could easily be the precedent for federal aid to rural elementary and secondary schools. The difference would be that training would not be mainly oriented to vocational agriculture as today's programs are in many rural high schools. Rather, the emphasis would be on such training as would prepare the graduate from such a school to compete favorably with urban school graduates in obtaining non-agricultural positions.

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[30]Alvin L. Bertrand, "The Many Louisianas," Bulletin No. 496, Louisiana State University, 1955, p. 9.

Any such training program for rural youth involves a long range policy decision. For this reason, it is exceedingly difficult for a low-income area to bear the burden of such a program. First, the people of such areas would see no reason why they should bear the burden of training persons to be employed elsewhere. Second, they probably could not afford the necessary instructors and facilities to give the required education.

Allow Prices to Seek World Market Level with Non-stimulating Supports

"We must free the farmer from the shackles of acreage controls and marketing quotas."[31] Turn the farmer loose from the straight jacket he is in and let him make adjustments as the free market dictates. These ideas, says Hughes, would be possible with an economic, and not a political, solution to an economic problem. He further states that when a government encourages inefficient farmers by handouts of a few dollars, it hurts everyone, low-income farmers by continued poverty, and non-farmers by high taxes and prices.[32]

There might be some merit in the striking proposals that Hughes has made, particularly since the world's economy is beset more by food shortages than it is plagued with surpluses. In addition, there is the animal element to be considered. Whenever feeds become plentiful, grains may be used to feed animals to produce eggs, milk, and meat products, if grain prices are low enough for such use. Thus, if

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[31]Earl Hughes, "Let's Set the Farmer Free," Readers Digest, March 1958, pp. 93-94. Mr. Hughes, an agricultural economist, resigned from the position of chief custodian of the government's farm surplus board in 1956 to return to farming. His reason for leaving the position is given as wishing to get out of a hopeless situation which, he says, consists of holding a bear by the tail and being afraid to let go.

[32]Ibid., pp. 93-94.

certain foods become plentiful in the United States, they could, given a free market, be traded for products of other nations or be diverted to other uses. The variables to be considered in case of exports are international price, foreign exchange levels of importing nations, and ability of importing nations to increase their own production.[33]

Major opposition to any such proposal from farmers with land valued according to the sale of its products under a government support program would be partially overcome if society were to shoulder such burden of loss. Farmers could be reimbursed through damage payments or tax readjustments and write-off as was accorded industry, that also expanded production to satisfy war needs.[34]

Federal assistance to farmers who were hurt by revision of import policy and the end of stimulating price supports would be costly to society. This cost, however, would need be borne only once and not every year as is the case with present support prices that force an annual burden on consumers and taxpayers. As Witt says: "The payments, properly assessed, would not exceed the gains to the general economy in lower prices and increased goods. The nation would gain out of better international relations ... The payment to injured producers would be paid once and liquidated, ..."[35] In addition, foreign suppliers would have no further fear of erratic and unpredictable changes in American trade policy. This would permit foreign producers to set up

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[33]Schoff, op. cit., pp. 76-77.

[34]Lawrence Witt, "International Programs and Agricultural Policy," The Southern Economic Journal, XXI, No. 2, (October 1954), 171.

[35]Ibid., pp. 171-172.

permanent distribution organizations and programs in the American market.

Under any program that attempts to encourage imports, domestic supports must be less than the world price. As has been shown, price supports fail to solve the low-income farm problem. They have no justification for continuation if adequate income to low-income farmers is the reason for their existence. For this reason, any sort of price supporting policy should be aimed at disaster relief rather than at supporting an adequate income. A disaster relief program could be made compatible with increasing imports, while a price support plan avowedly aimed at maintaining adequate incomes could not.

Legislation and Effective Policing of Anti-trust Regulation of the Production of Agricultural Equipment and Buyers of Agricultural Crops

Generally speaking, the outbursts of newsmen like Drew Pearson and some of the farm organization spokesmen about monopoly getting the profits while the farmer does the work are grossly exaggerated. Nevertheless there is need to assure that the Federal Trade Commission and the Justice Department receive ample funds. Effective vigilance will help assure that the farmer and consumer are not taken advantage of by illegal actions of commodity buyers and farm suppliers. With so few firms producing farm implements, cooperation in actions is easy to effect. Although formal connections between firms are missing, "price leadership" does exist among the eight firms that furnish the bulk of all farm machinery in the United States. International Harvester Company and Deere and Company generally announce their prices before other firms.[36]

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[36]Purdy, Lindahl, and Carter, op. cit., pp. 270-275.

The meat packers have often come under fire for monopoly practices said to be in restraint of trade. This has also been true of cotton and tobacco firms as well as many others. The more localized and isolated the specific market, or the larger and fewer the firms, the more apt is sentiment for control to be voices.

History has shown several revolts against the monopoly power of farm suppliers in the markets. The Granger movement encouraged the enactment of laws to control railroads, and warehouses. Farmers joined labor and other groups to assure passage of the Sherman, Clayton and Federal Trade Commission Acts. Attempts to circumvent monopoly power in marketing has also taken the path of becoming as strong as those with which the farmer must deal. Cooperatives have been fostered in this attempt. Legislation has been fostered to aid the farmers' attempt at countering industrial monopoly power in most states and by the Agricultural Marketing Act of 1929 which was strengthened by the Agricultural Adjustment Act of 1933.[37]

Government programs in effect remove much of the monopsonistic or oligopsonistic power of large buyers of agricultural products produced under supports. This might raise a major problem if supports are removed for all but disaster relief use. For example cattlemen, who are not under a price supporting program, saw the price of their stock decline drastically after the cattle price break in 1952. Yet there was no corresponding break in meat prices to the consumer.

In Table XV the increased use of some farm implements is shown.

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[37]John K. Galbraith, American Capitalism (Boston: Houghton Mifflin Company, 1952), pp. 159-170.

TABLE XV

MACHINES ON FARMS

Machines	1940 Thousands	1950 Thousands	1955 Thousands
Tractors	1,545	3,609	4,750
Motor Trucks	1,047	2,207	2,750
Milking Machines	175	636	740
Grain Combines	190	714	960
Corn Pickers	110	456	660

SOURCE: Agricultural Outlook Charts 1956, Agricultural Marketing Service, USDA (Washington, D. C., November 1955), p. 60, Table 4.

During the period, 1940 to 1955, farmers became more dependent on farm implements than ever before. For this reason they are now more than ever dependent on oligopolized industries. And if price supporting is lessened and an increased impetus given to imports, there will be need of increasing protective vigilance. Farmers will have become more vulnerabel to cost squeezing than they have been in the past. However, it is possible that increases or threats of increases of imported farm implements might prove to be a mitigating factor.

Summary

Policy compatible with public welfare would attempt to wed an increasing standard of living, by allowing accrual of benefits from comparative advantage, to a more prosperous agriculture. Continued support of inefficient resource utilization should not be tolerated if it is economically feasible to shift such resources to areas of increased

productivity. Authorities in both the fields of agricultural economics and foreign trade have advanced proposals that could be joined in such a way as to effect the needed shift. Perhaps more emphasis should be directed to the examination of such proposals.

CHAPTER VII

SUMMARY, EVALUATION, AND CONCLUSIONS

Under the last three administrations some success has been experienced in the effort to lower tariff rates and import restrictions. Many agricultural spokesmen, including representatives of the American Farm Bureau Federation and the National Farmers Union, have stated that they favor increasing foreign trade, imports as well as exports. However, within agriculture as throughout the entire economy, there are many minority groups in favor of continued and increased protection for their own commodity.

Problems of Increasing Imports of Hand-Intensive Commodities

As this study has shown, those dependent upon protection are well aware of the benefits to be gained from a protective policy and the knowledge that others might be hurt by the policy will usually not deter them from a goal of increasing their own benefits. On the other hand, those who stand to suffer because of import restrictions are generally unaware that they may be hurt, or they are hurt so little as individuals that they do not voice protest. Change from protective patterns may be costly to those capable of production only with the benefit of protection. Lawmakers, then, will normally receive a great deal of persuasion for protection from minority groups. On the other hand, any organized opposition against maintaining or increasing protection for minority interests is seldom of an intense or sustained nature. Recently the President found it necessary to veto a bill passed by both

houses of Congress when mail to the Department of Agriculture was 8 to 1 against the ideas contained in the bill. Yet pressure had been successfully brought to bear, by minority groups, on members of Congress.[1]

The discussion of comparative advantage in Chapter II shows how society generally receives greater returns for its factor output when trade is not hampered. The argument that low wage rates in low wage nations injures labor in a high wage nation that received imports competitive to domestic commodities from such a source was found to lack merit. The ability of a nation's products to enter the world market in the absence of dumping, state trading and trade restrictions is not determined by high or low wages per se, but by a nation's factor endowment and the combination of these factors used in the production of the various commodities.

American agriculture is generally more dependent on world markets than most other American industries. Although many agricultural commodities are imported, most agricultural imports do not compete with domestic production. Where, presently, threat of competition from imports would arise with an end of restrictive measures, much of the threat can be traced to the high price created by domestic support programs. In the attempt to aid low income domestic producers with price supports, imports must be excluded. Unfortunately, price supports, even

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[1] Ezra Taft Benson in a speech to the National Press Club, Washington, Feb. 6, 1958, United States Department of Agriculture, Office of the Secretary, 351-58, stated that the results of a poll of farm people showed them that less government interference and fewer programs were wanted. Only 39 per cent wanted as much or more government participation. At the same time, 8 out of 9 letters from all sources, farm as well as non-farm, were in favor of less government interference. Shortly thereafter Congress sent a bill to the President that would have frozen price supports and quotas at the same levels of 1957.

when used in conjunction with import restrictions, do not solve the low income problem faced by a large number of farmers.

Attempts to secure adequate incomes for low income farmers by the use of price supports have often led to very profitable operations for a few farmsteads and landholders while many farmers have received little aid. A program which increases prices to consumers and provides little aid to most farmers, yet a program which forces foreign countries to do without desired dollar exchange, appears to need revision. Such a program will undoubtedly continue malallocation of productive factors longer than an adjustable program which would permit the easing of pressure on the scarcest factors and make greater use of the more abundant factors.

A commodity that requires relatively large amounts of a scarce factor may be protected if imports are excluded. And such protection is often advocated by various producer groups. In the United States labor is normally the factor in relatively short supply; consequently, it is ordinarily a labor-intensive industry which finds itself in need of protection from foreign imports. Conversely, the products of American industry which enjoy the greatest demand in foreign markets normally require little hand labor in their production. Since most trading nations are plagued with a chronic dollar shortage, imports of hand-intensive commodities should be encouraged from dollar-short areas while investments of a private nature should be encouraged in the same area. Both actions would increase the dollar exchange available for purchases of American export items which are normally of a more capital oriented nature than are our imports.

One problem to be faced in a program that would shift underemployed factors out of hand-intensive production into the production of capital-intensive commodities, goods, and services would be the need of government expenditures. The cost would be as high or perhaps higher than the amount needed to carry on present price supporting programs. However, in contrast to the annual price support payments which do little or nothing to solve the low income problem, the cost of shifting production factors would be for one time only.

Another major problem to be faced in an attempt to shift productive factors would be the effect on the nation's security. Part of this problem could be resolved with more emphasis on stockpiling from cheaper sources and less reliance on the maintenance of high cost defense industries.

General Conclusions

The United States is probably in a better position economically than any other nation to permit an increase of imports. Imports should be welcomed, and in fact, the goal of policy decisions should be to encourage especially those imports that would require hand-intensive production methods. The flow of United States investment capital and products into the world markets, while not balanced by the smaller flow of world goods into the United States, indicates that all imports are of a supplementary or complementary nature to the American economy. Although a commodity may be directly competitive with an American commodity, it is, none of the less, helping to balance the flow of trade. The more such imports the United States is able to induce the more goods and services American consumers will have. Any import restriction that

the United States maintains will mean fewer returns to America's production factors.[2]

Since lowering tariffs and curtailment of other trade barriers will undoubtedly harm certain sections of the economy, policy should include considerations for those who stand to be injured. Within agriculture where many would benefit by fewer trade barriers, many areas would feel increased competition.

With a democratic type government that is responsive to peoples wishes, trade and agricultural policy cannot be dictated by an all-powerful policy-making body. Although Congress has defaulted much of its authority for making trade policy to the executive branch, the framework within which trade is regulated is determined by the legislature. As Congressmen are responsive to constituents, it is possible that certain groups may seem to be overly represented. The general apathy on the part of most voters makes it easier for minority interest groups to seek and obtain Congressional succor at the expense of the majority.

Congress, to set or police trade policy in a manner that would raise the nation's standard of living should be aware of how the majority would benefit, and it should not rely predominantly on testimony from special interest minorities for the basis of legislation. There has been much written in the news columns about the need for foreign trade. Nevertheless, the advisability of continuing the Reciprocal Trade Agreements Act has been in question from time to time when it is under consideration for extension.

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[2]Meyer, op. cit., pp. 323-335.

The rising level of living enjoyed in America is in part due to the rapid technological advances. The motive for protection, however, is basically a resistance to change and an attempt to assure the continued income of those not making a change. The incidence of protection falls upon other producers and the consumers. Protection thus proves costly and permits protected producers to become complacent behind protective walls. Insensitivness to technological change slows the shift of productive factors that would be continual were protection minimized. Legislation should be designed to aid rather than hamper factor adjustment. Progress toward freer trade should be speeded. Such legislation should be made permanent and not subject to extensions every two or three years. Moveover, the full and enlightened power of the government should be channeled into an attempt to make agricultural policy more compatible with trade policy.

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